Insurance and Poverty Alleviation

By
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Executive Summary

'..reducing vulnerability, with all its debilitating consequences, is central to improving material well being (or preventing reversals) and empowering poor people and communities' (World Bank 2000).

Whilst over the last few decades life expectancy, child mortality, literacy and education enrolment have increased[1], this progress has been uneven and confined to particular groups of people (UNDP 2000). There are still 2.8 billion people living on less than $2 a day, in poorer countries a fifth of children die before the age of five and almost half remain malnourished. In the next 25 years, two billion people will be added to the world's population of which 97 per cent will be in developing countries (World Bank 2000). There has been a growing recognition amongst development practitioners that poverty alleviation is best achieved by empowering the disadvantaged and giving them the right and the opportunity for self-determination. The poor are faced with many difficulties in improving their livelihoods including limited access to health, education and income opportunities. Whilst the measurement of poverty has moved from relying solely on income figures to a more multidimensional concept encompassing freedom, civil rights and equality, the efficient use and availability of financial resources is still regarded as critical to sustainable poverty alleviation.

In recent decades a number of microfinance institutions have been established to provide access to savings and credit to the poor. These informal schemes are designed to empower the individual to become more self-sufficient and to give them the ability to protect and provide for their family. Despite widespread scepticism from academics these products have been positively received by the poor. This has demonstrated that the poor are not weak helpless individuals who rely on handouts, but are determined people wanting to improve their livelihoods and wanting to overcome the challenges facing them. More importantly the poor have shown that they have the capacity and the desire to save and to repay loans. Subsequently many hundreds of microfinance schemes are now in operation informally and formally across the world today.

However, the effectiveness of improved access to credit and savings on poverty alleviation is dependent on how these additional financial resources are utilised by the poor. The poor are faced with many risks and are highly vulnerable to fluctuations in their income and expenses arising from health costs, property theft and fire, violence, death, disability and catastrophes. Available credit and savings provide some protection against the effect of these

losses, but by using all of their available financial resources to try and recover from these events many find themselves falling further into poverty. In the last few years development institutes have recognised that microinsurance[2] products are the most appropriate way to lower the impact of these risks on the poor and to ensure more effective use of credit and savings. However, insurance provision is much more complex than credit and savings and a number of recently established schemes have failed to provide adequate cover on a sustainable basis.

The study addresses two central issues, firstly, the importance of insurance in supporting poverty alleviation, and secondly, what measures can be taken to provide a sustainable and viable microinsurance scheme. Chapter one looks at the reasons why the poor are so vulnerable, the impact on their livelihood, and how savings, credit and insurance can assist overcoming vulnerability. The second Chapter reviews the problems facing micro-insurance providers and chapter three looks at solutions that have so far been implemented, in particular the use of the co-operative structure to deliver insurance products to the poor. As there are still very few micro-insurance schemes which have proved their viability and sustainability chapter four looks at additional areas that need to be addressed. Chapter five provides some recommendations and concluding remarks.

Conclusions

The study highlights the importance insurance has in supporting the sustainable development of the poor and reducing the inequality in developing countries. Due to the complexity of insurance it is recommended that the microinsurance provider initially seeks a partnership with either an existing established insurance company or industry experts whose technical skills, technology and experience can be used to benefit the poor. Formal insurance organisations do not service the poor due to the lack of returns and high risks involved. For this reason the co-operative structure is the most appropriate to overcome conflicting objectives of profit and self-interest with the need to provide protection to where it is needed the most. The study also demonstrates how co-operative principles are acceptable under Islamic law as opposed to conventional insurance schemes, over half of the least developed nations in the world have a majority Muslim population and are without access to insurance protection.

[1] In developing countries over the last three decades life expectancy increased by 10 years, adult literacy increased by half and infant mortality declined by more than two-fifths (UNDP 2000).
[2] Microinsurance refers to the subset of insurance products that are designed to be beneficial and affordable for low-income households and groups (Brown et al 2000).

The International Co-operative and Mutual Insurance Federation (ICMIF) has a wide range of resources and services available to assist the establishment and growth of microinsurance providers in developing countries. It is recommended that the involvement of organisations such as ICMIF in supporting the provision of insurance products to the poor increase the possibility of achieving sustainability and viability. On a broader scale the study concludes that there is a need for more concerted effort to facilitate an enabling environment through "microregulations" and "microreinsurance schemes". These can only be achieved by the co-ordinated lobbying and collaboration of activities between all organisations working to serve the needs of the poor.

Whilst there is no single solution to poverty eradication, insurance can provide the individual with a secure environment and a firm foundation to improve his/her standard of living.

Chapter One – The importance of insurance

1.1 The plight of the poor

Countless explanations have been put forward for the despairing situation of the many millions of poor people in developing countries. An understanding of these reasons and the characteristics of the poor are important when discussing the potential role of insurance mechanisms (Appendix One).

The livelihoods of citizens in countries with low human development compared to high human development

HDI♣ rank (from 174) 1998	Country	HDI value 1998	GDP per capita (PPP US$) 1998	Life expecta-ncy at birth (years) 1998	Adult literacy (% age 15 and above) 1998	GDI♦ value 1998	Population below income poverty line (%)	Under-five mortality rate (per 1000 live births) 1998	Doctors per 100,000 People 1992-95
1	Canada	0.935	23,582	79.1	99.0	0.932	5.9º	6	221
2	Norway	0.934	26,342	78.3	99.0	0.932	2.6º	4	-
3	United States	0.929	29,605	76.8	99.0	0.927	14.1º	8	245
172	Burkina Faso	0.303	870	44.7	22.2	0.290	61.2*	165	-
173	Niger	0.293	739	48.9	14.7	0.280	61.4*	280	3
174	Sierra Leone	0.252	458	37.9	31.0	-	57.0*	316	-

♣HDI (Human development index) – composite index based on life expectancy, educational attainment and standard of living. A HDI value equal to or more than 0.800 has high human development, 0.500-0.799 HDI has medium human development and a HDI below 0.500 reflects low human development and well being.

♦GDI (Gender-related development index) – composite index using same variables as HDI but adjusted in accordance with the disparity in achievement between women and men. A GDI of less than 0.500 show that women in these countries suffer the double deprivation of low overall achievement in human development than men.

º Income poverty line is $14.40 a day (1985 PPP US$) 1989-95 –as used in HPI – 2 calculation
* Income poverty line is $1 a day (1993 PPP US$) 1989-1998–as used in HPI – 1 calculation

Source: UNDP (2000).

1.1.1. - Location

About 70% of the world's poor live in rural areas. Employment is informal, family or self-orientated and mainly in agriculture, providing only seasonal and fluctuating cash flows. Inadequate roads and lack of transport and communication isolate the poor from economic opportunities and limit access to social services [3]including health, food[4], sanitation[5] and education, in particular for women and minorities (Appendix One). Manipulation from intermediaries, depressed food prices, monopolistic marketing boards, and protectionism by developed countries[6]

[3] The inefficient delivery of child allowances and other grants to eligible women in rural areas means that many are without any access to financial support (SFU 2000).
[4] It is estimated that around 1 billion rural households in developing countries lack access to safe water supplies (Carney 1999, UNDP 2000).
[5] More than 2.4 billion people lack adequate sanitation (UNDP 2000).
[6] The tariffs that high-income countries impose on agricultural goods from developing countries are five times as high as on manufactures (Creese & Bennett 1997).

makes it difficult for producers to access export markets and obtain market prices for their goods (Carney 1999, Creese & Bennett 1997). The disparity between rural and urban sectors is evident by the greater progress in human development and less deprivation for people in urban areas (UNDP 2000)[7].

1.1.2. - Lack of access to the formal sector

In most developing countries the informal sector accounts for between 50 to 60 percent of the workforce, whilst in some it can be over 90 percent. The informal sector is characterised by very small entities that are family orientated, providing for small local markets, requiring minimal capital investment and low-level labour intensive skills. Workers in the informal sector do not have formal employment contracts, they are unaware of their rights and do not have any effective lobbying force (Dassanayake 1999). Additionally, the lack of formal financial services enables rogue moneylenders to exploit the poor through informal saving schemes (Rutherford 1999b, Ford Foundation 2000).

1.1.3. - Health

Almost half of the world's population does not have access to basic healthcare (STEP 1999)[8]. Where public-financed facilities are available they are too far and are not usually of adequate quality or quantity (Dror & Jacquier 1999). In Africa the economic crisis of 1970s and 1980s resulted in cuts in state subsidies and the introduction of user fees which further limited access for the poor (Atim 1998).

The poor need health-care, their living environment is dirty and polluted causing a high risks of infections and diseases. HIV/AIDS[9] are predominant in the poorer regions where income opportunities are low and information on sexual practice is non-existent. Vaccinations against measles, meningitis, tuberculosis, yellow fever and hepatitis are either unavailable or too expensive[10]. Polluted water and air mean diarrhoea and respiratory infections are the most common causes of death amongst young children[11]. Injuries and chronic illnesses resulting in long-term disability affect an estimated 5-10 percent of people in developing countries. Disability is related to poor education,

[7] In 1996 the HPI-1 in rural Uganda was more than twice than in urban Uganda (UNDP 2000)
[8] Between 1990-95 exclusion from health services was almost nil in most OECD countries, 20 percent in all developing countries and 51% in least developed countries (UNDP 1997, as quoted in Dror & Jacquier 1999).
[9] Every minute an additional 11 people are infected with HIV/AIDS, 12 million Africans have died of aids and by 2010 there will be 40 million orphans in the continent (UNDP 2000).
[10] In India tuberculosis is four times as high amongst the poorest fifth of the population than the richest (World Bank 2000).
[11] In South Africa the under five mortality rate for the poorest 20 percent is double that of the richest 20 percent and three times in Northeast and Southeast Brazil (World Bank 2000).

nutrition and unemployment and caused by injuries or by communicable, maternal diseases (World Bank 2000, Brown & Churchill 1999).

1.1.4. - Education

Education is a route for upward mobility and a form of social security for parents in their old age (Wright 1999). However, very few poor children obtain an education as many have to work to provide household income. Without education the poor are unable to access wage employment in the formal sector or obtain important information on health and birth control (McKay 1997).

1.1.5. - Corruption

Democratic and participatory political processes are key to stable growth and poverty reduction. (World Bank 2000). "Democratic" central governments in developing countries are unable and unwilling to finance and manage social services to the poor (Creese & Bennett 1997). The policy environment determines the effect of economic growth on inequality (Goudie & Ladd 1999). Corrupt officials increase inequality and prevent the dissemination of economic growth to the poor in order to maintain their stronghold on power (Appendix One). They are influenced by the needs of powerful elite groups and multinationals that pay bribes in return for favourable policies. The poor have no voice in the political area, most public resources are spent on debt servicing, maintaining the wealthy, subsidising inefficient state enterprises and undertaking military purchases (Hulme & Mosley 1996). There is a lack of public accountability, credible information, transparency, regulation and sound financial supervision. . Money and power undermine the independence of the judicial system[12]. The lack of regulatory enforcement and low paid government officials provide a breeding ground for corruptive practices. Poor people and in particular minority ethnic groups have little knowledge of their rights and have limited understanding of the written law (World Bank 2000).

1.1.6. - Natural disasters and civil war

Over the past ten years the incidence of natural disasters has increased, adverse weather situations such as drought, flood and storms are becoming more frequent and more severe. The settlements of the poor are commonly found in hazardous or coastal areas where nobody else has the use of the land. These slums are highly inflammable, structurally very weak and prone to collapse (Pollner 2001). Between 1990 and 1998, 94 percent of the world's 568

[12] In Bangladesh during the 1990s surveys showed that 63% of those involved in litigation paid bribes to court officials (UNDP 2000).

major natural disasters and more than 97 percent of all natural disaster related deaths were in developing countries. People in low-income countries are four times as likely to die from catastrophes than those in high-income countries (World Bank 2000). The majority of civil conflicts are also in poor countries, the poor are easily manipulated to uprise due to their frustrating situation [13]. Many of these conflicts lead to widespread devastation and the mass slaughter of women and children.

1.1.7. - Women in poverty

Women are disproportionately represented among the poor and the challenges they face are greater than that of men (Appendix One). It is women who bear the burden of poverty, taking care of the sick, working extra hours and giving up their food and education in times of crisis (Ford Foundation 2000). They are culturally regarded as inferior and are usually assigned to part-time, temporary or occasional work, which is the most vulnerable to economic pressures (Dassanayake 1999, Hulme & Mosley 1996). Women bear the brunt of arranged marriages, migration and child fostering and usually lose out more then men during downturns (Morduch 1999). Very poor women face geographical and social exclusion, they lack self-confidence, and have restricted access to training and information on health and nutritional problems. This leads to a large number of unhealthy babies and an increased strain on the resources of the household. (Dunford 2001). Literacy rates are also low for women as they stay at home helping with the housework and agriculture, this reduces their employability, understanding of legal rights and their ability to make informed health decisions. They are regarded as belonging to the husband's family and therefore a wasteful investment (Dassanayake 1999).

A woman is the head of the family in more than one-fourth of all households due to increasing divorces, migration by husbands and death in civil war, however limited access to adequate education and training prevents the growth of women's micro-enterprises. Majority of women entrepreneurs in the informal sector work long hours in poor conditions for low and irregular income. They lack capital, have little bargaining power and have to rely on manipulative moneylenders. They are not protected from sickness, death or accidents, which continuously hinders their capital formation (Women's World Banking et al 2000, Women and Micro-enterprise Initiative 1999, Dassanayake 1999). The empowerment of women will contribute to the well being of the whole family and the community, enhancing the entire development process. Women with better education and autonomy are more able to protect their children and increase their development. With equal opportunities and new productive economic

[13]More than 85 percent of all conflicts were within country borders between 1987 and 1997 (World Bank 2000).

roles women can become successful entrepreneurs and provide for better economic growth (Dassanayake 1999, Dunford 2001, Hulme & Mosley 1996).

1.2. - The impact of risks on the poor

As discussed above, poor households face difficulty in generating regular and substantial income and are extremely vulnerable to economic, political and physical downturns (Matin et al 1999, Brown & McCord 2000). Additionally, the inequality, lack of diversification and social injustice faced by the poor mean that unexpected losses can only be met from existing funds, there are limited opportunities to find other sources of income or assistance. For the poor and for those just above the poverty line, a drop in income or increase in expenses can further reduce their already low standard of living. The risk is that some peril such as death, sickness, accident or old age may interrupt income, forcing the disposal of productive assets or household consumables to recover from the loss, which in turn decreases future income and current livelihood (Ali 2000). The frequency of losses are also greater on the poor, life expectancy is lower, and illness, disability and crime rates are higher than the average citizen, many are exposed regularly to harsh weather, political instability and economic mismanagement (Hauck 1997, World Bank 2000, Brown & Churchill 1999). Without investment in health the productivity of the household's labour force is diminished, as the informal sector is predominantly labour intensive (Wright 1999). The high risks of death and disability mean the loss of the income earner (usually the man) without able substitutes is quite common, this is due to lack of access to training, education and opportunities for women (Brown & Churchill 1999). Crimes such as theft and violence occur regularly in a poor neighbourhood, where there are no adequate means of safeguarding assets. Cheaply constructed houses in slum areas are more likely to be destroyed by fire and natural disasters, spiralling many households into poverty following the depletion or damage to productive assets (Morduch 1999).

To cope with a loss the poor have to resort to emergency measures such as child labour, malnutrition and reducing children's education and family healthcare (World Bank 2000, Wright 1999). Also the fear of losses can mean sacrificing new technologies and profitable business opportunities, impeding any possibility to move out of poverty (Morduch 1999). The poor are already limited to low-risk and low-return strategies due to the lack of working capital, opportunities, inputs and skills. Subsequent exposure to risks and the accompanying uncertainty leads to even less growth focused opportunities taken (Brown & Churchill 1999). It is therefore important that the poor are protected from these risks if not to directly alleviate poverty but at least to enable the benefits of other measures such as education, gender equality, sanitation, employment opportunities, population control, healthcare and nutrition to be realised.

1.3. - Risk-coping mechanisms

In addition to coping with the effects of risks, the poor also need resources to deal with lifecycle events such as marriage, birth, death, education, and old age. They need to be able to take advantage of income-generating opportunities or acquire life-enhancing consumer durables such as TVs and refrigerators. The poor therefore occasionally need access to large sums of money to deal comprehensively with these requirements without affecting their current or future livelihood (Rutherford 1999a). Unfortunately, the poor have little means for money management, as there is little access to banks and insurance companies (Rutherford 1999b). There are no unemployment benefit or pension plans available and no easy access to credit markets in times of volatile flows of income. To provide protection against risks the poor have in the past developed informal insurance mechanisms such as selling assets, exchanging gifts, cash transfers and diversifying crops, unfortunately these have proved inadequate and have instead retarded economic growth and social mobility (Morduch 1999). Since the 1970s there have been many pro-poor banking institutes established in the semi-formal sector including micro-finance institutions (MFIs) and non-governmental organisations (NGOs) to satisfy this need (Rutherford 1999b). It has now become recognised that poor people can save and want to save, and their need to access lump sums in return for smaller affordable payments can be satisfied in the following ways:

a) Savings deposit – lump sum in the future from small savings now.
b) Loans - lump sum now for saving (repayments) in the future.
c) Insurance – lump sum at an unspecified time for series of savings (premiums) now and in the future.

Many elderly people live in poverty due to limited access to pension plans and saving facilities and the low income of other family members. Consequently they have a large number of children to provide informal social security for their later years. Convenient and reliable savings schemes allow households to reduce the number of children they have without undermining their ability to cope with a lower income in old age (Morduch 1999). In particular, women, as well as an important source of labour are also an important savers group. They are better savers then men, they spend their money more wisely and take care of food and health needs, take care of the sick and elderly and provide for the education of their children. They have invaluable knowledge and understanding of the problems and constraints facing the poor, and reinvest more in their family and community (Dassanayake 1999). Without easy saving opportunities the poor tend to spend or lend to friends and families foregoing any long-term capital

accumulation. Savings can ensure that basic needs are covered in times of household shocks such as old age, death and disability (Rutherford 1999, Morduch 1999)

Loans help the poor to diversify their risks, invest in productive assets, and enable education, healthcare and lifestyle expenses to be within reach. Access to credit enables the poor to smooth consumption during periods of low income or unexpected losses without having to sell productive assets or spend working capital. It enhances gender equality by giving the woman the opportunity to make a larger contribution to household income and increase her role in the family (Wright 1999, Matin et al 1999).

Whilst both savings and credit facilities are integral in assisting the poor overcome unforeseen losses their benefits are limited to the capacity of the individual to save or make repayments. When bad conditions and their consequences persist for several years such as drought and flooding, then the use of savings as protection are limited. In addition, high risks of illnesses, death and disability of the breadwinner means outstanding loans become difficult to repay (Ford Foundation 2000). Debt bondage is a form of child labour that is a consequence of loan default, the bonded labourer has to work off a loan contracted many years or generations ago at terms that make full repayment impossible[14] (SFU 2000). There is also a high risks of non-payment due to lack of protection against natural hazards which limits the availability of credit to the poor (Hulme & Mosley 1996). In Eastern Africa compulsory savings are locked in to act as security for loans, and ensure good repayment rates. However, as well as restricting access to savings, most loans are only half as large again as the savings and are not sufficient to cover all risks or losses (Rutherford 1999).

Consequently, insurance has been recognised as the most appropriate means for protection against highly unpredictable events, whilst savings can still be used for more predictable risk (Atim 1998). Although in some cases the substantial costs of predictable events, such as death, may mean insurance is a better option.

Differences between Savings and Insurance

Insurance <----------> Savings

Highly unpredictable <----------> More Predictable											
House fire or storm damage	Car damage	Crop Loss	Theft Loss	Disability	Emergency health care	Hospital care	Delivery	Out-patient care	Life/ funeral	Pension	Purchase of durable goods

Source: Atim (1998)

[14] It is a means for the creditor to access cheap, unskilled labour indefinitely (SFU 2000).

Funerals as an example, are a major expense for the poor[15], aggravated by the rise in HIV/AIDS. Selling assets, obtaining credit, drawing on savings, receiving gifts or purchasing insurance are possible methods available to pay for the costs. Selling assets is difficult due to the time lag and lack of available assets, use of credit and savings mean either greater debt or sacrificing a productive use of accumulated wealth and gifts are monetarily insignificant. Therefore funeral insurance is the most appropriate and affordable method to cover the expense (Roth 2001).

1.4. - Micro-insurance

Insurance is the most effective means of reducing the vulnerability of the poor from the impacts of disease, theft, violence, disability, fire and other hazards. Insurance protects against unexpected losses by pooling the resources of the many to compensate for the losses of the few, the more uncertain the event the more insurance becomes the most economical form of protection. Policyholders only pay the average loss suffered by the group rather than the actual costs of an individual event, insurance replaces the uncertain prospect of large losses with the certainty of making small, regular, affordable premium payments (Brown & McCord 2000, Brown & Churchill 1999). The primary function of insurance is to act as a risk transfer mechanism, to provide peace of mind and protect against losses. Risk can be handled by either; assumption, combination, transfer or loss prevention activities. Insurance schemes utilize the combination method by persuading a large number of individuals to pool their risks into a large group to minimize overall risk (Ali 2000). In the developed world insurance is part of society, such that some forms of cover are required by law. In developing countries the need for such a safety net is much greater, particular at the poorest levels where vulnerability to risks is much greater and there are fewer opportunities available to recover from a large loss.

1.4.1. – Types of micro-insurance products

Loan protection insurance ensures that in the event of death all outstanding repayments are written off. Health and disability insurance enables the poor to cover the costs of medicine, hospital stay and treatment as well as protecting the loss of income due to sickness or injury[16]. Funeral insurance covers the costs of burial, and property insurance replaces assets lost due to theft, damage or destruction (Brown & Churchill 1999). Livestock insurance is important in developing countries where animals are not only a source of food but are used for agricultural production and transport (IDB 1977). Life savings insurance, which pays the deceased beneficiary the amount held in the savings

[15] In Grahamstown, South Africa, the costs of a funeral was fifteen times the monthly income (Roth 2001).
[16] SEWA bank found that the main reason for irregular loan repayments was illness of the women or family member, families were paying interest rates between 20% to 30% to professional money lenders to cover high medical bills (Hauck 1997).

account plus a benefit enables funeral expenses to be taken care of and replaces some of the loss of income source (Brown & Churchill 2000)[17]. Insurance can cover the risks of damage, piracy and theft of goods in transit which is much greater in developing countries, particularly for those that are landlocked. Commodities account for about 34 per cent of the export earnings of developing countries, in Africa they represent 79 percent. Producers are vulnerable to a number of geological and environmental risks including floods, earthquakes, droughts, typhoons and hurricanes. Crop insurance schemes can protect the producer from the losses of climatic and natural disasters[18]. The availability of agricultural insurance including crop insurance, machinery, raw materials and even life-insurance gives greater assurance to credit providers to service the poor (Matringe 1997). Insurance is vital to ensure the continued access to credit and greater security for the individual. For the MFI, providing insurance products lowers default rates and reduces the clients need to draw down on savings, which improves the profitability and sustainability of the organisation (Ford Foundation 2000, Brown & Churchill 1999, Hulme & Mosley 1996).

1.4.2. – Micro-insurance and human development

In the past poverty has been measured solely by per capita income, however, it is now widely recognised that poverty also includes deprivation from health, education, food, liberty and opportunity. The Human Development Index (HDI) measures welfare of people using three factors, income (GDP per capita), educational attainment and life expectancy at birth (UNDP 2000). Micro-insurance programs can increase HDI by providing creditors with greater security and incentive to lend to micro-enterprises (World Bank 2000). For the individual, reducing risk through insurance enables credit and savings to be used more productively on income-generating opportunities (Devaux 2000, Matin et al 1999). With greater resources and a safety net the borrower can take on greater risk to achieve higher income and stimulate outside investment. They can also market their products outside of the local market achieving a better price for goods and for raw materials (Ford Foundation 2000). Insurance enables the policyholder to save a portion of his income, without the need to use it on medication, fire, theft and death, it can instead be invested in a child's education. The requirement for less income also enables parents to send their children to school instead of working in the fields, better education leads to better health and better income earning potential as well as population control (World Bank 2000). Health insurance enables access to better medical services and a better quality and longer life. Access to adequate insurance protection can assist the poor to achieve sustainable growth and provide them with the capability to attain a better standard of living. It can mitigate the

[17] COOPERAR in Venezuela offers a benefit equal to the amount held in savings and an option to double this by increased premiums (Brown & Churchill Part II 2000).

[18] In Mauritius the Sugar Insurance Fund Board insures sugar cane producers against cyclones, droughts, hurricane, fires and heavy rainfall. The insurance is compulsory and costs on average 0.09 per cent of the price paid to small producers, in the event of a loss the producers are reimbursed almost 65 per cent of their loss (Matringe 1997).

impact of personal and national calamities on the build up of assets, providing escape from the viscous circle of poverty that engulfs each new generation. Insurance can also protect those that have risen above the poverty level against unforeseen events that may cause them to fall into poverty again. Insurance provides security where none is available from the state, it facilitates self-sufficiency and empowers people to build for their own future.

Whilst the benefits of insurance for the poor are clear there are still very few micro-insurance schemes which have proved their viability and sustainability. The next chapter will look at why it has been so difficult to provide the same insurance products to the poor which are so widely available in developed countries.

Chapter Two – Problems with providing insurance to the poor

Insurance is not as widespread in developing countries as in the developed world and in the poorest of countries it is virtually non-existent. Available figures show that only Nigeria has any officially recognisable form of insurance from the 35 countries identified as low in human development (HDI<0.500), all developing countries, even those with large populations have a very low proportion of the world insurance market. Of the 42 medium human development countries for which information was available, despite population increases, 29 had decreased their proportion of the world insurance market with only India, China and South Africa increasing between 1998 and 2000 (Appendix Two). In 1998 the three largest insurance markets (U.S.A., Japan and the U.K.) covered almost 64% of the total world insurance market but only 8% of the world population, by 2000 this had grown to almost 69%. Formal (legal) insurance is not being made available where it is needed the most, where human well being is at the lowest and vulnerability at its highest.

Availability of insurance in countries with low human development compared to those with high human development

HDI[a] rank (from 174) 1998	Insurance* rank by volume from 88 1998	Country	HDI value 1998	GDP per capita (PPP US$) 1998	Insurance density: Premiums per capita 1998 (USD)	Insurance penetration: premiums as a share of GDP 1998 (%)	World Population 1998 (%)	*World insurance market 1998 (%)	*World insurance market 2000 (%)
3	1	USA	0.929	29,605	2,722.7	8.65	4.71	34.17	30.61
9	2	Japan	0.924	23,257	3,584.3	11.73	2.17	21.02	26.39
10	3	U.K.	0.918	20,336	2858.9	12.09	1.01	8.40	11.82
135	58	Pakistan	0.522	1,715	2.9	0.66	2.55	0.02	0.01
138	65	Kenya	0.508	980	9.5	3.48	0.50	0.01	0.00
151	61	Nigeria	0.439	795	2.7	0.86	1.83	0.02	0.00

[a]HDI (Human development index) – composite index based on life expectancy, educational attainment and standard of living. A HDI value equal to or more than 0.800 has high human development, 0.500-0.790 HDI has medium human development and a HDI below 0.500 reflects low human development and well being.

*Only those 88 countries with premium volumes more than USD 150 million have statistical data provided in Sigma

Sources: UNDP (2000), Sigma (1999) and Sigma (2001).

The lack of interest by the formal sector to serve the poor is due to low collateral, higher transaction costs, interest rate restrictions, corruption, uncertain profitability, high risks, lack of pro-poor values and inability to serve the specific needs of the poor (Matin et al 1999). Insurance is a capital-intensive industry requiring large start up costs and financial commitments, modern technology and a well-educated workforce. Additionally, monetary stability, opportunity for investments, a politically and economically stable environment and a sound consistent, favourable

and fair regulatory system is not available in developing countries (Ripoll 1996). Consequently, the provision of insurance to the poor has been left to the informal sector through existing microfinance institutes, NGOs, credit unions and co-operatives without overwhelming success. These organisations are faced with a multitude of problems and issues that prevent them from providing adequate, affordable and secure insurance products.

2.1. - Coverage

Protection has to be restricted by age, loan size, value and causes of loss to maintain affordable premiums and solvency of the scheme (Morduch 1999, Brown & McCord 2000). Health insurance clients are still forced to pay a large amount for medical expenses themselves, therefore low premiums with low coverage are not smoothing the healthcare shocks of the poor[19]. Additionally for those that live far from health care facilities the costs and time of travel is too high (Creese & Bennett 1997). The quality of healthcare also suffers as good doctors and nurses do not want to be located where the majority of poor reside without additional financial compensation.

Very few institutions offer property insurance to protect the policyholder against loss or damage to equipment, livestock, small amounts of gold or cash that has taken many years to accumulate and whose replacement is unaffordable. This is mainly due to the high moral hazard and difficulties in establishing the true cause of loss or damage. Where cover is provided this is limited to specific causes of loss, and usually not against frequently occurring risks e.g. flooding in the rural villages of Bangladesh (Brown & Churchill 2000). Agricultural insurance is mostly found in towns protecting the risks of purchasers, lacking any penetration in the mass rural producer population due to their low productivity. As informal schemes cannot access reinsurance markets, protection on events that may effect a significant portion of policyholders such as catastrophic losses are not provided. Consequently, policies have to be limited to risks absorbable by the small capital base of the provider (Brown & Churchill 1999, Brown & McCord 2000, Matin et al 1999, Dror & Jacquier 1999). Most current insurance arrangements are informal self-insuring schemes, set by particular tradesmen facing certain risks such as death or marriage, these are more effective and affordable for those that are slightly better off than the poor (Matin et al 1999). Some schemes are established to protect the liability of the institute, providing loan protection rather then life savings insurance and standalone term endowment policies which may provide a greater benefit to the poor (Brown & Churchill 2000).

[19] Some forms of coverage are particularly restrictive such as the health insurance scheme of SEWA which only pays out after 24 hours hospitalization and reimbursement after almost three months covers only 22 percent of total costs of hospitalisation (McCord 2001).

2.2. - Regulation

Insurance regulations protect consumers and insurers from financial instability and misleading selling practices. However, in developing countries regulations are targeted at serving the middle and upper income markets and hinder the delivery of insurance to low income communities. High capital requirements make developing products for low-income markets uneconomical for established insurers due to the small premiums and high risks. Consequently, micro-insurance providers have to operate informally, without access to expertise and reinsurance (Brown & Churchill 1999,Brown & Churchill 2000).

Insurance regulation is important to maintain the credibility of the insurance industry, unfortunately, in many developing countries regulatory requirements are not adhered to. Many government agencies do not have adequate financial resources, qualified staff, relevant information and operational independence to effectively supervise the insurance industry. Obtaining and distributing accurate and objective information on enterprise performance and solvency is costly but necessary to enforce effective regulation and monitoring. In developing countries financial reporting systems and standards are not harmonised, performance statistics of providers are unreliable and it is very easy to overstate profitability, capital margins and general financial health (Dror & Jacquier 1999). Insurance organisations have not reached a suitable level of maturity in developing countries due to inadequate financial and logistical resources, unsuitable regulations, and insufficient knowledge and information. Corruption and cronyism in governments means insurance provision is secluded to the upper and middle class sectors, there is no confidence in the quality and soundness of financial institutions (Savage 1998, World Bank 2000).

Regulation of micro-insurance is even more important, as the client base is uneducated and lacks the ability to assess the performance of the provider, who also lacks the expertise to efficiently run and manage an insurance business (Wright 1999). As most MFIs do not operate within the guidelines of the law they must dedicate additional resources to ensure sufficient capital and reserves, provide regular financial reports and monitor the activities of their agents (Brown et al 2000). Operating in the informal sector means more care is needed when dealing with data and monitoring the performance of the organisation. Without effective regulation and the ease of entry and exit, the possibility and opportunity for negligence or unscrupulous behaviour is quite high. Uneducated consumers, particularly amongst the poor are continuously defrauded and sold fictitious policies by unlicensed insurers, resulting in claims not being paid when losses occur (Savage 1998). Insurance is much more complex than simple savings and loans and there is a high possibility of misinterpretation of exclusions and coverage. The provider has the legal and financial resources to dispute a claim whilst the poor do not. The lack of contract enforcement means

that consumers are not protected against losses from the insolvency of the provider or from fraudulent behaviour (Savage 1998, World Bank 2000, Wright 1999).

2.3. - Morale Hazard

Moral Hazard is the risk that the insured will change his/her behaviour and increase the possibility of a claim (Ford Foundation 2000). This is more likely in microinsurance as the policyholder has little to lose and a lot to gain. In the case of loan protection insurance, the lender may have less incentive to ensure that payments are made on time and in full and the borrower may invest in higher-risk higher-return activities. The policyholder also may be less likely to look after his/her health, property and spending patterns in the knowledge that insurance cover is available (Dror & Jacquier 1999, World Bank 2000, Morduch 1999).

2.4. - Education

There is a lack of education amongst the poor about insurance, they find it difficult to understand and accept the risk pooling concept, leading to high drop out rates particular from clients that have not made a claim (Ford Foundation 2000, Brown & McCord 2000, McCord 2001, Havers 2001, Vogt 1999, Brown & Churchill 2000). Insurance has a poor image amongst the poor, insurance officers are seen as quick to sell and slow to pay, claims processes are hindered by bureaucracy, and policy limitations and exclusions are unclear due to complex policy wordings. Clarifying insurance policies is an additional costs and burden on the provider, especially as the policyholder may not be able to read let alone understand the terms and conditions (Brown & Churchill 2000, Vogt 1999, Dror & Jacquier 1999).

In developing countries insurance is not mandatory and the poor have many other important items to spend the little disposable income they have. Additionally the uncertainty of loss as in property insurance makes it more difficult to sacrifice income than for more certain events such as death and healthcare (Brown & Churchill 2000). Premiums have to be affordable and the benefits of the protection need to be presented to policyholders regularly, especially those of the low-risk category. Marketing of micro-insurance products is more than just selling insurance policies, there is a need to educate the client on the benefits of the product, the coverage it provides and how to make claims. It is more difficult than selling credit or savings as there are no immediate tangible benefits, clients have to be convinced in investing in the cover for the long term and not try and recuperate his/her money through a claim. Consequently, the marketing and communication skills are just as important as technical know-how and more attention needs to be paid to customer satisfaction and feedback (Creese & Bennett 1997, Brown et al 2000).

2.5. - Technical expertise

Due to the high levels of risks and volatility of the client base, management of a micro-insurance programme requires an even greater level of technical expertise and actuarial capacity (Havers 2001). Substantial resources need to be dedicated to claims verification, policy processing and information systems to ensure adequate controls and efficient payment of claims. Strong underwriting procedures are required when only a small percentage of the market is insured to avoid over exposure to high-risk policyholders. Managers have to be able to predict future costs and claims using complex actuarial calculations and market research to ensure the sustainability of the scheme and efficient pricing[20]. Information systems are important to track policyholders and verify claims, these are costly to implement and need staff training. Most MFIs do not have access to adequate management information systems that would provide accurate and timely information. Manual accounting systems and processes hinder management control, and where information is available MFIs do not have the ability to use it (Brown et al 2000). Expertise on investing reserves and surpluses are needed to provide an additional vital source of income and ensure future liabilities are matched (Brown & Churchill 2000).

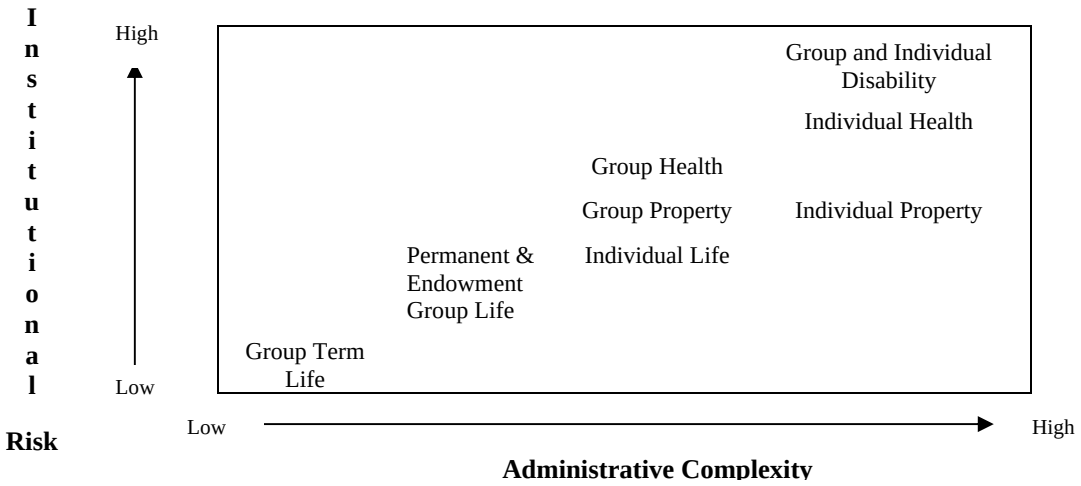
Many small microfinance institutes particularly credit institutions move into insurance products motivated by the profits made by larger NGOs without grasping risk management strategies or techniques, this leads to many becoming insolvent and clients without any form of protection. Some microfinance institutions enter into more complex products without having the necessary administration systems, technical staff, distribution channels and financial strength to support their growth (Vogt 1999, Dunford 2001). MFIs can only provide simple products as they lack the expertise to successfully price, sell and service more complex products such as health and property. Even when considering increasing the coverage for basic outstanding life insurance the complexity of information requires a high level of expertise. Provision of health insurance is even more difficult due to the range of causes of health risks, the information required to assess these risks, and knowledge needed to identify fraud by the policyholder and the healthcare provider. Disability claims are complex in measuring the size of the loss and determining the value of ongoing payments (Brown & Churchill 1999).

The lack of skills and technology to effectively price products weakens the financial sustainability of the scheme. Products such as permanent life, health and property require specialist actuarial skills to undertake the complex

[20] From the study of Brown & Churchill (2000) institutions with access to actuarial expertise were able to charge a lower price for the same coverage types and maintain financial sustainability.

calculations for pricing. Micro-insurance providers currently set pricing using simplified calculations that place a dangerous reliance on clients' estimates of sufficient premiums. Insurance is a highly technical business and MFIs do not have access to or can afford qualified skilled staff to operate an insurance scheme which covers a wide range of products effectively and efficiently. MFIs also do not have access to know-how or the training tools to empower local staff with the relevant knowledge and technology (Brown & Churchill 1999, Brown et al 2000, Brown & Churchill 2000, Ford Foundation 2000, Women's World Banking et al 2000).

Relative Risk and Complexity for Insurance Providers



Source: Brown (1999 as cited from Weihe et al 1990).

2.6. - Fraud

The poor are desperate to improve their standard of living and have greater opportunities for fraud in an informal environment (Ford Foundation 2000). The provider needs an effective claims verification system, which undertakes adequate investigation but does not delay claims. (Brown & Churchill 1999). The lack of reliable data on client's age, health status and dependants makes it difficult to determine premium pricing and eligibility of coverage (Brown et al 2000). Verifying beneficiaries, assessing incomes and collecting contributions in the informal sector is a problem due to the lack of information and reluctance to declare (Roth 2001, Savage 1998, Brown & McCord 2000). Many claims are paid without verification due to the high costs of performing inspections. Appropriate internal control and management information systems are vital, as are regular and credible financial reporting systems to give management the opportunity to identify fraudulent activities. However, transparency and controls on management behaviour and good corporate governance practices are not common practice in developing countries, and the technology, expertise and culture are not available to ensure adequate controls.

The pay of supervisory staff in micro-insurance companies are not sufficient to guarantee their integrity (Savage 1998). Agents enrol as many policyholders as possible to earn maximum commission, regardless of risk profile and

long term viability, and even resort to stealing a portion of premiums collected. In some institutions agents also acting as collectors of loan repayments, consequently become overburdened and allow low repayment rates and greater opportunistic behaviour by the client (Brown & Churchill 2000). Micro-insurance providers do not have the resources or capability to adequately observe and enforce controls on their own employees, never mind the policyholders.

2.7. - Adverse selection

Adverse selection occurs when a significant portion of high risks policyholders sign up to the insurance policy, if the policy is voluntary than those that are most likely to make a claim will be the first to sign up (Ford Foundation 2000). Reaching a sufficiently large pool size of the right mix of risks is critical to ensure that there are sufficient funds to pay claims, particularly for new insurance schemes whose lack of underwriting experience could endanger solvency (Brown & Churchill 1999, World Bank 2000, Brown & Churchill 2000, Dror & Jacquier 1999).

2.8. - Flexibility

It is important to verify claims and process payments quickly due to the lack of other financial support available to the poor, likewise, efficient reimbursement is important to health care providers as policyholders are not be able to pay the up-front fee (Brown & Churchill 2000). Unfortunately the manual processing system of an MFI leads to delays in obtaining proof of loss and paying claims (Brown & Churchill 2000). Schemes also need to accommodate the earnings volatility and lower contributions of the self-employed and informal workers (World Bank 2000)[21]. Frequency of payment should match the ability of the client and the financial needs of the organisation to pay claims and operating expenses. . Most small savers do not buy insurance due to lack of access or unsuitable products (Ali 2000). Providers need to have constant communication with policyholders with volatile income streams, as demand may change from day to day depending on their economic circumstances.

2.9. - Affordability

The poor operate in a mini-economy in which all activity occurs in very small amounts, subsequently the relative transaction costs tend to be high, for this reason formal institutions are unable to provide services to the poor at an affordable premium (Matin et al 1999). The economic condition of the people affects the growth of insurance, an

[21] Some informal life insurance providers in Ethopia, called idirs, retain the right to fluctuate claims payments and premiums in accordance with mortality rates. However, this only serves to replace the protection of a risks with uncertainty on whether the loss will be fully covered or if the insured is able to pay additional premiums if mortality rates increase (Brown & Churchill 2000).

individual must have the ability to save and earn a regular income to become a potential policyholder. There is a clear correlation between the socio-economic level and the ability to purchase insurance,[22] many low-income communities are excluded access due to their lack of financial resources (Vogt 1999, Creese & Bennett 1997). The majority of income of the poor is spent on life cycle needs such as food, shelter, health and education, with very little available for insurance and savings (Brown & Churchill 1999, Matringe 1997).

2.10. - Retention

Client exit is a significant problem for MFIs, most dropouts occur when there is a downturn in the economy or adverse conditions in agriculture (Wright 1999). Dropouts are also very high due to changes in prices, change in service, misunderstanding of policies, lack of effective and focused marketing and other more pressing needs on clients income [23]. In health insurance where pre-existing conditions are not excluded, clients build up a series of illnesses, use the policy to gain treatment and then wait for another set of illnesses to build up before enrolling in the policy again.

2.11. - Sustainability

Existing microinsurance schemes are far from being sustainable and viable institutes[24]. In the initial years of operations most insurers incur a loss due to; the costs of acquiring and servicing customers, start-up costs of operations, inexperienced underwriting and premium setting and a small market base. These losses can constrain future growth, and if continued can result in the depletion of reserves and lead to insolvency. Whilst premiums need to be kept affordable they should also ensure the financial sustainability of the insurer, irregular flows of income in low-income households make it difficult to predict income streams. Consequently, a sufficiently large pool size is required to justify the substantial resources to market and administer products to a largely uneducated, sceptical and remote population. Overuse of services, escalating treatment costs and fraudulent claims have caused some health

[22] In 1996 the annual per capita expenditure on insurance in Latin America was just under US$200 compared to more than $2,000 in the United States (Creese & Bennett 1997).

[23] SEWA provides a prime example of the problems of attrition facing the microinsurance provider, in 1999/2000 and 2000/1 it experienced a drop in number of policyholders of six percent. This was due to the fact that SEWA offered a single entry point to their insured programme in July 1, premium collections took place in the preceding three months. During this period the main client area of Ahmedabad was hit by severe flooding, this drained the resources of the poor who were the worst hit, and therefore did not leave any funds available for insurance premiums. (McCord 2001).

[24] Health insurers NHHP (Uganda) and GRET (Cambodia) are having difficulty in covering their claims costs, UMASIDA (Tanzania) has growing deficits with clinics who now refuse to serve policyholders which increases drop out rates. SEWA's scheme has a high level of claims sustainability due to the subsidy from SEWA's health programme and 'barefoot doctors' service. This provides a more comprehensive package of services for the client through access to primary care, preventative care and assistance for accessing insurance services. Overall sustainability of SEWA is achieved from interest earnings on a reserve endowment provided by GTZ (McCord 2001).

insurance plans to incur large losses (Brown & Churchill 2000). Government restriction on investing abroad and the lack of expertise to undertake a prudent but successful investment strategy restricts returns on surpluses and prevents hedging against inflation and currency movements (Brown et al 2000, Ford Foundation 2000, Creese & Bennett 1997). The costs of distribution and small margins mean that the vulnerability of the organisation is high and sustainability is difficult to achieve. In addition there is no reinsurance available to informal insurance providers, leaving them highly exposed to fluctuations in claims expenses (Brown et al 2000).

Insurance schemes for the poor are financially unsustainable due to high overheads, low premiums and high claims. There is a need for either a large capital base or donor contribution in the initial years to give time for the correct infrastructure and number of policyholders to be obtained. The majority of schemes rely on funds other than those received from premiums to maintain sustainability and to ensure that the low-income markets continue to be served (Brown & Churchill 2000).

In summary the challenges facing the micro-insurance provider operating in the informal market to keep premiums affordable and coverage sufficient are huge (Appendix Three). The added need for qualified staff, internal controls, efficient administration systems, reinsurance and resources for marketing and education mean that establishing a sustainable and viable insurance scheme is almost impossible in the short-term. The micro-insurance provider faces the compromise between how low into the poverty sector the scheme can penetrate whilst maintaining full cost recovery. The following chapters looks at suggestions and solutions put forward that may assist the micro-insurance provider to eventually achieve sustainability in the long term whilst still providing access to the poor.

Chapter Three – Achieving sustainability

"A good financial service for the poor is one that is done in the most convenient, flexible, affordable and safest way" (Rutherford 1999b).

3.1 Lessons learnt

There are many challenges facing the micro-insurance provider and over the years many schemes have failed, but some have adapted innovative techniques to achieve sustainability and viability in the long term.

3.1.1. - Morale Hazard

Some schemes have implemented differential pricing to reflect different risks and claims experience to decrease moral hazard. Waiting periods and the exclusion of pre-existing conditions in health schemes prevent people from enrolling only when they need care. Co-payments, limited coverage, maximum age conditions, exclusions against alcoholism, drug abuse, injuries from riots minimise the likelihood of unnecessary and frequent claims (Brown & Churchill 1999, Brown & Churchill 2000, Creese & Bennett 1997, Ford Foundation 2000).

3.1.2. - Adverse selection

Terming all policies inactive until a certain number enrol into the scheme, or requiring the whole household to enrol as a unit of membership can assist achieving critical mass. Many credit unions add insurance as a mandatory requirement of an existing service, such as life insurance products on loans[25]. Group based insurance schemes provide cost savings in administration and distribution as well as spreading the risks profile. It is important that the group is pre-existing and not formed for the purpose of accessing insurance as this would attract a disproportionate number of high-risk individuals. The difficulty is to get people to pay premiums on a policy not taking effect and secondly to ascertain the appropriate number required to diversify the risk portfolio of the scheme (Brown & Churchill 1999, Creese & Bennett 1997, Brown & Churchill 2000).

3.1.3. - Flexibility

Different coverage for different premiums can bring in people at the lower level with a view of encouraging them to take on additional coverage for additional premium later on. Insurance schemes must adapt to the living and

[25] Of the 32 institutions studied by Brown and Churchill (2000), 24 provided some form of life insurance and all but six provided it on a mandatory basis, with almost all provided it as a condition of a loan or savings account.

working conditions of its customers, listening to their needs and priorities and installing trust-building measures that negate the aversion of an up-front payment (Dror & Jacquier 1999). There should be continuos product development and innovation to meet the needs and lifestyles of the poorer classes and the rural sector. Flexible payment systems would allow them to pay when and how much they can. Tiny, often weekly payments are often the key to ensuring full participation (Matin et al 1999, Dror & Jacquier 1999, Roth 2001, Brown & McCord 2000, Ali 2000, Brown & Churchill 2000). Also flexible payment methods such as linking with savings accounts, enable easy payment of annual premiums from interests received[26]. Other options include in-kind payments, sliding scale of premiums and decentralising claims and administration to facilitate easy access[27] (Brown & Churchill 2000).

3.1.4. - Education

'Credit with Education' is a strategy first developed by Freedom from Hunger in 1989-90 to improve household food security and child nutrition. This is integrated with group-based lending models such as 'village banking'. At each meeting of the village banking group some time is set aside for learning by the field agent, the field agent is responsible for getting in new members, attending regular meetings, assisting financial transaction and training members. During the education session the agent answers questions and offers advice, encourages sharing of experiences and promotes solidarity within the group. The strategy has produced some very positive results on the livelihood of the poor, particularly women (Dunford 2001). A similar strategy is needed for insurance, more so due to the complexity of insurance and the lack of available examples. The challenge is to find field staff who has the integrity and respect from the villagers and who also has sufficient capability and interpersonal skills to effectively undertake the dual role required. Clients need to be assured on the integrity of the system and that there will be clear accountability on the use of funds (Brown & Churchill 2000, Roth 2001). The poor need to be shown how protection is accessed by other poor villages and given support to set up similar schemes in their own communities through regular consulting, listening to the consumer and real participation (Creese & Bennett 1997, Rutherford 1999b)[28].

[26] The SEWA lifelong Insurance Policy is linked to a saving account at SEWA Bank. The member has to pay a deposit of 500Rps (700 Rps in 2001) and from the interest on the deposit the premium is paid, this eases administration costs for SEWA but also the one-time payment means the member no longer has to consider the opportunity costs each year of purchasing insurance against future consumption. In addition the recurring fund insurance policy allows the very poor women to save for lifelong insurance policy (Hauck 1997).

[27] King Finance (South Africa) and FINCA (Uganda) expedite the claims and payment process by directing all loan officers to send claims and appropriate documentary proof into a central processing unit, the payment is made normally within 48 hours for the simple outstanding loan insurance policy for King Finance and almost 10 days for FINCA which has to send all claims to its partner insurance company for payment. (Brown & Churchill 2000).

[28] La Equidad (Colombia) invites potential clients to preventive measures meetings for existing policyholders and provides training of front line staff on the workings of the insurance products (Brown & Churchill 2000).

3.1.5. - Fraud

Information systems that account for finances, analyse claims performance, calculate premiums and ensure eligibility are important to keep control on fraud (Creese & Bennett 1997). Close monitoring of treatment costs and types of treatment are needed over the health care provider. Information requirements such as health history and formal death certificates deter client fraud. Stricter policy clauses, application of underwriting standards, a transparent claims procedure, and the use of deductibles[29] and penalties for loan defaulting clients [30] can reduce the policyholder's motivation to make false claims (Brown & Churchill 2000). Maintaining the credibility of the organisation is paramount in ensuring that people have faith in the protection promised and will invest into the products offered. The organisation needs to be accountable and transparent in its operations and employees need to be adequately paid to deter corruption.

3.1.6. - Summary

Microinsurance requires a physical closeness between the two parties, smaller organisations are more responsive, efficient and flexible and have a closer distribution relationship than larger players (Ripoll 1996). In the same light financial viability also requires a detailed understanding of clients needs and preferences and an efficient delivery system (Matin et al 1999). The two biggest problems facing microinsurance providers is sustainability and affordability. For any scheme to be sustainable in the long term there is a need for access to a sufficiently sized group to spread the risk and costs of the scheme. An efficient and effective micro-insurance scheme demands high premiums to cover the costs and profit requirements which would effectively mean excluding access for most of the poor. In addition the use of deductibles and co-payments to tackle morale hazard and fraud lead to further exclusion.

Using the community spirit and organising the poor to access necessary services has been done effectively and efficiently for centuries using the co-operative structure. Agricultural co-ops have satisfied the supply, processing and marketing of goods, consumer co-ops have provided goods and services of preferred quality at competitive prices, workers' productive co-ops have created and maintained employment in the community. Housing co-ops have given low-income people the opportunity to own their own homes and electricity and telephone co-ops have satisfied rural peoples' needs for power and telecommunications. Co-operative banks and credits unions have

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[29] La Equidad requires policyholders to pay ten percent losses on all risks except earthquake and violent theft, on which 3 percent and 15 percent are charged respectively. Claims inspectors were employed by COLUMNA (Guatemala), La Equidad and NLC (Pakistan) to verify cause of damage, this was only used for high value claims due to the costs of involved (Brown & Churchill 2000).

[30] Network Leasing Corporation (NLC) makes the client return the asset that was purchased with the loan (Brown & Churchill 2000).

served people of limited incomes and extended credit to micro-entrepreneurs (ICA 1995b). In 1996, membership of the International Co-operative Alliance (ICA), the apex body of the world co-operative movement covered 230 organisations serving more than 730 million individuals in over 100 countries (ICA 2000). In the financial services sector the World Council of Credit Unions, Inc. (WOCCU) represents over 36,000 credit unions which provide 108 million members access to safe savings and affordable credit (WOCCU 2001). The success of the co-operative structure and the co-operative philosophy in satisfying the needs of the poor in an effective and flexible manner makes it a good candidate for channelling insurance products to the poor.

3.2. - Co-operatives

' A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically controlled enterprise' The 1995 ICA Statement on Co-operative Identity (ICA 1995a).

The co-operative values and principles

Co-op values	Co-op member ethics	Co-op principles
self help	honesty	voluntary and open membership
self-responsibility	openness	democratic member control
democracy	social responsibility	member economic participation
equality	caring for others	autonomy and independence
equity		education, training and information
solidarity		co-operation among co-operatives
		concern for the community

Source: ICA (1995a).

Co-operatives are voluntary organisations without gender, social, racial, political or religious discrimination. They are democratic organisations controlled by their members who actively participate in management decisions and policies. Members contribute to, and democratically control, the capital of the co-operative (one member is equal to one vote). Co-operatives most effectively serve their members by working together locally, nationally regionally and globally for the sustainable development of their communities (Birchall 1998). There are two main types of co-operatives, consumer co-operatives (housing, credit unions and insurance) and producer co-operatives (agricultural, fishing and some worker co-operatives) (Spear 2000b). Co-operative insurance companies are linked with democratic, progressive movements including co-operatives in other sectors, these links mean that co-operative insurance is operating in and supporting wider social and economic goals. Formal co-operative insurance companies can be stock, mutual or any other form dictated by the laws of the country.[31] The key difference from

[31] The term co-operative and mutual will be used interchangeably throughout the paper.

private companies is its adherence to the co-operative principles, in particular those of member control, non-profit operations and activities centred around preserving the interest of members (IDB 1977).

3.2.1. - Providing insurance using co-operative principles

The oldest documented accounts of a voluntary prepayment scheme for healthcare is the mutual help schemes organised in Greece during the fifth century B.C. by trade groups to protect their members from the financial consequences of death, illness or incapacity (Creese & Bennett 1997). Recently, in the informal sector a number of innovative schemes based around co-operative principles have emerged to enable access to savings and lending products for the poor. These schemes have become the natural foundation for providing insurance products to the poor.

Group-based lending mechanisms have proved to be the most effective and efficient in providing financial services to the poor at minimal transaction costs and risks, they are also a good forum for education, information sharing, change, and solidarity (Dunford 2001). Savings clubs such as Rotating Savings and Credit Associations (ROSCAs) [32] and Accumulating Savings and Credit Associations (ASCAs) [33] are common structures used to satisfy the saving needs of low-income households. Such savings clubs provide a degree of risk-protection on less uncertain costs through marriage and burial funds and in some cases against damage to property (Brown & Churchill 1999). These community based saving and lending systems are popular with low-income households due to the ability to access borrowing at short notice, small instalments, convenience, little bureaucracy and safeguarding assets from relatives (Matin et al 1999, Rutherford 1999b).

Self-help groups, mainly composed of women also incorporate the philosophy of community spirit and solidarity, these NGO promoted groups have a number of different objectives including women's empowerment, information distribution and business development (Rutherford 1999b). The Village Banking movement is another example of user-owned, group based financial services working in low-income communities. The object is to become an independent, self-financed and self-managed village-level institution providing loans to small businesses that stimulate savings and increase capacity to provide larger loans (Rutherford 1999b). The credit co-operative or credit union (also known as thrift and credit, savings and loans or caisse populaire) is a community based financial

[32] In a ROSCA equal periodic savings of every member are pooled and given to each member by turn (Matin et al 1999).
[33] In an ASCA, pooled savings may accumulate until a member is willing to take out a loan, within a time period the saved capital and interest earned is distributed back to the members (Matin et al 1999).

institution, which facilitates the habit of saving and provides credit on the basis of trust and peer pressure. The credit union has special policies to reach the bottom line members of the community by providing loans to micro-enterprise start-ups and exclusive services for women (ACCU 2001). Mutual Health Organisations (MHOs) and Community-based Health insurance Schemes (CBHI) combine the concept of insurance and participation. They are participatory independent non-profit organisations created by the members and are based on solidarity and democratic management. They use member contributions to manage risks and finance health care, and encourage better quality and more equal access to medical services and treatment (STEP 1999). All of these co-operative based institutions have provided financial services to the poor including insurance as member benefit programs for a number of decades (Appendix Four).

3.3. - Advantages of a co-operative/mutual insurance company

Organisations in the social economy such as co-operatives, mutuals and voluntary associations may be formed because the state does not provide sufficient quality or quantity of a particular service such as health, care and education (Spear 2000b). Consumer co-operatives generally emerge when existing services either are not accessible or not available (Ullrich 1997).[34] Consumer co-operatives, such as an insurance co-operative, are considered as an extension to the individual members' household economy. They aim to improve the conditions for the consumer and the economy of the household (which includes time, knowledge, self-sufficiency and money). The consumer co-operative will assist the households to organise and solve their problems through education, dialogue and improved access to services and products available (Blomqvist & Böök 2000).

3.3.1. - Identifying the needs of the poor

Co-operative and mutual insurers are in a better position to identify the needs of their customers and community due to the closer links through trade unions, credit unions, agricultural and consumer co-operatives. The resulting increased awareness and understanding enables a more personalised, flexible and appropriate service. Co-operative insurance companies operate for the benefit of their members and provide affordable premiums, fast and efficient service and responsive product development. (Vogt 1999, ACME 2000, Brown & Churchill 2000, IDB 1977, Birkmaier 1999). They offer stability through a clear community-minded mission and facilitate member involvement in distribution, promotion and product development to the benefit of all consumers in the community (Blomqvist & Böök 2000).

[34] In Argentina, over 500 Co-operatives distribute about 10% of the country's electricity reaching 15% of the population. In rural areas they provide electricity to almost 100% of the population (Ullrich 1997).

The mutual can take a long term, sustainable approach to management of the insurance scheme in the best interest of the member without needing to satisfy the short-term return requirements of shareholders, as the owners and members are the same. Stock companies are faced with a conflict of interest when the customer's requirements do not provide sufficient profits or return on investments, which is one of the reasons why established insurers steer away from high-risk low-income communities and concentrate on the middle/high class customers demanding 'off the shelf ' products (Vogt 1999, Birkmaier 1999, Ali 2000). Co-operative insurers dedicate substantial resources to research, health promotion and loss prevention as the policyholders' best interest is served by preventing losses (IDB 1977). There is an obligation to focus on all potential customers and not just the profitable ones, they have a duty to provide where there is a need, and the need for protection is the greatest by the poorest.

3.3.2. - Trust

In an environment where regulation is weak and corruption is high there is very little trust in any institution. This is more of a problem in the informal sector where the poor have no rights at all and are constantly manipulated. Co-operatives are more trustworthy, less likely to engage in opportunistic behaviour and exploit the consumer (Spear 2000a, Creese & Bennett 1997). The co-operative structure makes it easier to win the trust of the members, particular in the face of market failure and it is better placed to tap into member's know-how, loyalty and ideas (Ledbeater & Christie 2000). The strong community relationship, good user networks, member involvement and democratic process encourage a growing feeling of trust and building of social capital to develop a better society. Trust is a major advantage of the co-operative and it encourages a greater number of transactions and commitment from the members to act in the best interest of their organisation and improve its economic efficiency (Spear 2000b).

3.3.3. - Morale hazard, adverse selection and fraud

Mutual insurance policies are participating policies, where policyholders share the profits or losses earned by the insurer. This reduces the risks borne by the insurer and decreases motivation for morale hazard and fraud by the policyholder. Peer pressure from within established social groups can encourage members to avoid morally hazardous behaviour, particularly in small groupings and communities. In community-based schemes, each policyholder is an owner of the scheme and elects a group of policyholders to manage the operations, usually on a volunteer basis. This enables poor households to retain control and ownership (Brown & McCord 2000, Brown & Churchill 1999, Brown & Churchill 2000).

Due to lack of credible information in developing countries, particularly in the informal sector there is a need and reliance on local knowledge to underwrite policies correctly and verify claims (Roth 2001). Insurance provided through an established co-operative body means that risks are considerably reduced as each society has close knowledge and supervision of the member and his/her risks. This existing trusted relationships and solidarity with members provides the opportunity to build a stable policyholder base. This is important when incomes of participants grow at different rates and richer participants who find they are giving more tend to leave the group (Morduch 1999, Brown & Churchill 2000, IDB 1977). Membership-based organisation thrive when the members come from a specific loyalty or occupation as fear of future exclusion from the scheme and the accompanying social network keeps participation high (Ledbeater & Christie 2000, Brown & Churchill 1999).

Co-operative insurers are less likely to manipulate the poor and participate in underhand selling tactics such as over-pricing, misleading advertisements and excessive management costs. There is less likelihood of the manager taking advantage of asymmetric information and failing to enforce obligations as the policyholder is the owner and henceforth the employer of the manager (IDB 1977, Spear 2000b). The ownership of co-operatives by consumers, workers or suppliers mean that it is easier for them to monitor the performance of the company and its employees on a regular basis. Co-operatives involve their members not only in corporate governance but also in the day to day running of the scheme (Ledbeater & Christie 2000).

3.3.4. - Education

Co-operatives and mutuals have a long-standing affiliation with the poor and have the expertise and means of communicating the needs and benefits of insurance (Vogt 1999). The nature of insurance is based on the concept of mutuality, risks is shared by the many to protect the few, the poor are used to this concept as they are familiar with traditional mutual self-help mechanisms (Creese & Bennett 1997, ACME 2000). As members are owners of the scheme and ultimate beneficiaries of its success they have a strong incentive to educate themselves and learn about their own business (IDB 1977).

3.3.5. - Empowerment

Co-operatives empower individuals by providing them with the opportunity to participate in decisions that impact their livelihoods. It gives the poor a voice, gives them a choice, and a chance to find solutions to their specific social and economic needs (ICA 1995b, IDB 1977). Policyholders have representations on special advisory committees dealing with company performance, products and claims, enabling members to take direct control over decision

making and on the quality, type and delivery of service. The co-operative structure allows the poor to have more bargaining power, benefit from economies of scale and negotiate better deals for themselves (IDB 1977, Ullrich 1997). Success of the insurance scheme would enable the co-operative to reduce the inequality and disadvantage of members, staff and the wider community (Spear 2000b, IDB 1977).

3.3.6. - Costs and price

Co-operatives do not operate under a profit motive, surpluses are reinvested or paid back to members, keeping costs and premiums down (IDB 1977, ICA 1995b). Community involvement reduces the costs of labour and resources needed for information collecting, educating, marketing and monitoring policyholders (World Bank 2000). The Co-operative structure enables lower costs by offering insurance to large affiliated groups, many farmers in developing countries belong to at least one co-operative society that provides them with credit, marketing, equipment or farming methods. These societies are a natural and cost-effective distribution channel for insurance particularly in remote areas and lower income groups in towns and cities (IDB 1977, Birkmaier 1999). Co-operatives make more effective use of the resources of their members and the economic-efficiency of the organisation as surpluses are returned to the members in the form of dividends, lower premiums, loss prevention activities or additional coverage (Spear 2000a, Birkmaier 1999).

3.4. - Weaknesses in the co-operative structure

3.4.1. - Capital

Mutuals principally rely on retained earnings to expand their capital base, they are unable to raise capital by issuing equity. This restricts their ability to undertake large and long term investments, preventing them from entering into new lines of business, regions or making acquisitions (Birkmaier 1999, Ledbeater & Christie 2000, Ullrich 1997). At or near the subsistence level, the poor have little available for saving and whilst these can be mobilised, to depend on them to provide the required capital is unrealistic in the short term (ILO 1974).

3.4.2. - Accountability

Offering insurance through co-operatives or credit unions as member benefit schemes surpasses regulatory requirements. Without the legal requirement of audited financial statements and performance reports, there is a greater need for internal mechanisms and transparency to ensure sufficient controls and checks are in place. Additionally, without the incentive of stock options to guide managers' objectives and insufficient board control and expertise there is a greater possibility of fraudulent activity by company officers. Lack of control on managers also

leads to members needs being ignored in product development and a lack of motivation to open membership to other groups. The co-operative can become an inward looking and stagnant organisation, it can also become a tool for government manipulation and propaganda (Hulme & Mosley 1996). Access to services requires permission from group leaders, who may abuse their privileged position to favour certain parties, be tempted to steal funds and exclude the poorest in the community. Mutuals, therefore, tend to concentrate more on lines of business that require limited management discretion and with less underwriting risks which may be to the detriment of the needs of the policyholder (Birkmaier 1999, Brown & Churchill 2000, Birkmaier 1999, Ledbeater & Christie 2000, McCord 2001).

3.4.3. - Technical expertise

Group leaders are not insurance professionals or managers and are unable to manage the scheme effectively and efficiently (McCord 2001). Managerial salaries in co-operatives tend to be lower than in the private sector and therefore cannot attract qualified personnel and modern technology (IDB 1977, Ullrich 1997). Limited experience in collecting and analysing data makes it difficult to design suitable coverage, establish premiums and set up adequate claims reserves (IDB 1977). There is an overwhelming need by co-operatives in developing countries for technical assistance and financial support to enable them to manage their insurance schemes (Rutherford 1999b, ILO 1974).

3.4.4. - Size

As the organisation grows it tends to lose its co-operative identity and also its closeness with its members needs (Ullrich 1997). Conversely, the organisation can also become inward looking and become an exclusive group, which prohibits new members and stifles innovation and progress (Ledbeater & Christie 2000).

3.5. - Established and successful co-operative insurance companies

Many observers say that the advantages of the co-operative structure in servicing the poor diminish as the organisation grows larger. Solidarity, member participation, member driven services, flexibility and concern for the community are not evident once the organisation expands beyond the local village. Additionally, the co-operative structure is seen as prohibiting the growth of the organisation due to its lack of access to technical and financial resources. However, the membership of the International Co-operative and Mutual Insurance Federation (ICMIF) show that co-operative insurance companies are successful and competitive in developing and developed countries. The ICMIF has 122 member companies operating in 65 countries, serving sectors from farming, fishing, trade

unions, teachers, civil servants, doctors, credit unions and co-operatives. The size of the members range from some of the world's largest international insurance organisations to small start up operations serving a small niche in local markets (ICMIF 2001a). Whilst maintaining certain co-operative principles becomes more difficult as the organisation grows it is definitely not impossible as demonstrated by ICMIF members (Appendix Five).

Despite the conventional premise that starting up insurance operations require a huge financial commitment and access to capital, many have started without share-capitals and have developed with a low net worth (Ripoll 1996). The German, Japanese and Korean insurance systems originated in small schemes of employed people (Creese & Bennett 1997). In 1997 six of the ten largest insurance companies in the world and almost half of the top fifty were mutuals, overall global market share by mutuals was around 40% (Birkmaier 1999). The growth of these large co-operatives and mutuals and their adherence to their co-operative principles mean they can give the socially excluded a greater voice in government policies and practices. As well as achieving size many large co-operatives have been able to use their structure to give them a competitive advantage. In its study of 97 companies in 11 countries in Europe, ACME[35] found that mutuals were showing to be more successful in market performance than their plc competitors during the late 1990s. They paid higher claims ratios (i.e. paid more back to the members) and maintained lower costs ratios, demonstrating their continued drive for efficiency of operations and value for members (ACME 2000).

Co-operatives have succeeded in providing insurance products and maintaining its social objectives by adhering to the following principles:

1. Good corporate governance.
2. Proper form of accounting and transparency
3. Practising an open, voluntary and non-discriminating membership.
4. A high degree of autonomy and self-reliance.
5. Clear focus or objective to hold members together, such as access to affordable insurance products.
6. Ensure that everybody has access to and can afford to join the co-operative.

(Blomqvist & Böök 2000, Ledbeater & Christie 2000, Ullrich 1997).

[35] ACME is the European regional association of ICMIF.

3.6 - Islamic Insurance

World-wide the Muslim population in 2001 stood at 1,433.71 million or 23 percent of the total population, of which 1,385.45 million are based in Asia and Africa. Muslims account for 47% of the population in Africa, 27% in Asia, 7% in Europe and 2% in North America (Felahi 2001).

The well-being of the Muslim population

Continent	Muslim population (%) 2001	World-wide Muslim population (%) 2001	HDI ♣ value 1998	GDP per capita (PPP US$) 1998	GDI♦ Value 1998	Population without access		Under-weight children under age five (%) 1990-98
						To safe water (%) 1990-98	To sani-tation (%) 1990-98	
South Asia	36	38	0.56	16,765	0.542	18	65	49
South Asia (excluding India)	84	28	0.55	25,314	0.533	15	49	41
Arab countries	94	18	0.635	4,140	0.612	17	23	19
Sub-Saharan Africa	36	16	0.464	1,607	0.459	46	52	31
South East Asia and Pacific	40	14	0.691	13,111	0.688	29	-	-
East Asia	3	3	0.716	20,987	0.710	32	-	-
East Asia (excluding China)	0	0	0.849	17,719	0.846	8	-	-

♣HDI (Human development index) – composite index based on life expectancy, educational attainment and standard of living. A HDI value equal to or more than 0.800 has high human development, 0.500-0.799 HDI has medium human development and a HDI below 0.500 reflects low human development and well being.

♦GDI (Gender-related development index) – composite index using same variables as HDI but adjusted in accordance with the disparity in achievement between women and men. A GDI of less than 0.500 show that women in these countries suffer the double deprivation of low overall achievement in human development than men.

Source: UNDP (2000), Felahi (2001)

There is a comparatively very low ratio of Muslims in developed countries, the majority reside in medium to low human development countries. From the 35 low human development countries as defined by the Human Development Report 2000, eighteen have a majority Muslim population (>50 percent) and a further five have a Muslim population of over 20 percent (Appendix Six). Muslims around the world are commonly faced with low-income levels, and lack access to social security systems, healthcare, education, sanitation and employment opportunities. There is growing inequality in Islamic countries even in the rich Arab nations, due to increasing populations and a wave of cheap immigrant labour[36]. It is therefore important that some risk protection mechanism is available to lower the vulnerability of the Muslim population.

[36] The per capita income in Saudi Arabia has fallen from $28,000 in the early eighties to almost $10,000 due to a doubling in the population and an unemployment rate rising from nothing to 18%.

"Takaful is the second most important social institution in the Islamic community to counter poverty and deprivation[37]" (Fisher 1999)

Whilst conventional insurance companies do operate in Islamic countries these are limited to commercial needs and to the elite sector of the population. Insurance penetration in Islamic countries is low (Appendix Six), this is because conventional insurance contains elements contradictory to Islamic principles, namely uncertainty (Gharar), gambling (maisir) and interest (riba) (Sigma 2001, Bhatty 2001). However, insurance in Islam has existed since the early second century of the Islamic era when Muslim Arabs expanding trade into Asia mutually agreed to contribute to a fund to cover mishaps or robberies along the numerous sea voyages. Muslim jurists concluded that insurance in Islam should be based on principles of mutuality and co-operation and encompass the elements of shared responsibility, joint indemnity, common interest and solidarity (Yusof 1999, Shakir 1999).

Takaful is the form of insurance deemed permissible for Muslims under Shariah Law (Islamic Law). The fundamental philosophy of Takaful is the same as that of the co-operative, with added restrictions on investments and more flexibility on capital formation. The takaful is operated as an enterprise providing services on a self sustaining model rather than as a charity (Fisher 1999). Since the first takaful insurer, the Islamic Insurance Company of Sudan, was established in 1979, there are now almost 50 takaful companies around the world. However the growth of the Takaful movement has not been profound, in 2000 takaful premiums represented approximately 0.02 percent of world insurance premiums[38].

Estimated figures of Takaful business in 2000

Country/region	Takaful premium 2000 (US$ million)	% of total Takaful market
Malaysia	143	27
Other Asia Pacific	50	9
Europe, USA	6	1
Arab countries	340	63
Total	**538**	**100**

Source: Bhatty (2001)

In addition to the problems outlined earlier in providing insurance to the poor there are a number of specific issues obstructing the spread of takaful to the Muslim population. Firstly, there is a shortage of adequately trained and qualified insurance personnel in Islamic countries and on the takaful concept. Secondly, there is a lack of knowledge on the principles of takaful by the general public and scepticism on its permissibility (particularly on life

[37] The first is Bait Al Mal (funded by Zakat – Islamic Tax or contribution of 2.5%) (Fisher 1999).
[38] In 2000 takaful premiums were estimated at USD 538 million whilst world premiums amounted to USD 2,443.7 billion (Sigma 2001).

insurance). Thirdly, there is no existing insurance culture in Islamic countries, in fact there is an indifference towards risks reflected by their low insurance density and penetration (Appendix Six). Fourth, there are no regulatory models in place that governments can use to monitor and encourage takafuls[39]. Fifth, the demand for takaful products, both life and non-life has been huge, however takaful providers have had difficulty in managing the explosive growth and are unable to fulfil its potential[40]. The lack of distribution channels is a major difficulty in ensuring that access can be provided to the needy. With so few players and with such small capital bases there is also a lack of available reinsurance from within the takaful movement, limiting the coverage available to policyholders. Finally, there are no concrete moves or motivation to expand the takaful movement globally or an international takaful body to facilitate this (Bhatty 2001).

The high growth of takaful in Malaysia

Year	Family takaful USD millions	% increase	General Takaful USD millions	% increase	Total takaful USD millions	% increase
1998	55.0		36.6		91.6	
1999	70.0	27%	42.7	17%	112.7	23%
2000	93.2	33%	49.8	17%	143.0	27%

Source: Bhatty (2001)

As the takaful and co-operative concepts are so similar, there is no real obstacle for the more established co-operative movement to assist the takaful movement in providing insurance products to poor Muslims across the world[41]. Over the last year, ICMIF has held discussions with key players in the takaful movement and proposed support by providing; technical expertise, partnership with existing co-operatives, co-operative reinsurance cover[42] and assist establishing a global presence to harmonise and promote the takaful concept. With no existing insurance schemes available, takaful products in Islamic countries will protect the middle and working classes from falling into poverty in the event of a large loss. Establishing 'microtakaful' schemes enables insurance to become much more acceptable and accessible to the poor whilst still maintaining the benefits and principles of a co-operative.

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[39] Malaysia is the only country with a specific takaful Law.
[40] In Malaysia since 1994 the annualized average growth was 92% life (Family Takaful) and 34% general. Since 1998 this slowed to 30% life and 17% general (Bhatty 2001).
[41] In 1979, a seminar held by the Arab Insurance League and the ICIF (later to become ICMIF) concluded that co-operative insurance is permissible in Islam under the rules of Takaful. It also recommended that the co-operative insurance sector should provide support to the takaful movement in the spirit of co-operation amongst co-operatives.
[42] A takaful insurer is allowed to purchase reinsurance cover from a conventional company if there is insufficient capacity in the takaful market, therefore the co-operative would be a more religiously acceptable alternative than the conventional reinsurer.

3.7. - Summary

In developing countries the provision of insurance products to the poor has been done with a certain degree of success through co-operatives, credit unions and other community or group based saving mechanisms. The co-operative structure is also appropriate for accessing the Muslim population in developing and even developed countries. However, the scope of protection and extent of coverage to the poor is limited to the risk bearing capabilities of the entity, which is very small. It has been estimated that low-income households can only protect themselves up to 40 percent of losses through informal risk coping mechanisms (Brown & Churchill 1999). To enable a higher coverage over a wider range of risks to the poor on a sustainable and viable basis there are a number of challenges that the micro-insurance provider still has to overcome.

- *Technical expertise* - co-operatives do not possess the necessary insurance expertise to provide a wider range of products on a prudent and sustainable basis.
- *Regulations* - high capital requirements mean that insurance schemes remain in the informal sector. Operating illegitimately, the rights of the policyholder and the operating practices of the provider remain outside the control of regulatory bodies. Without a license, insurance schemes are unable to obtain reinsurance cover and are limited to the coverage they provide.
- *Globalisation* - the liberalisation of insurance markets in developing countries is threatening the existence of small domestic niche players serving the interests of the poor. The influence of multinationals on government policy to raise capital requirements and force small players to merge is making it more difficult for informal mechanisms to succeed and grow.

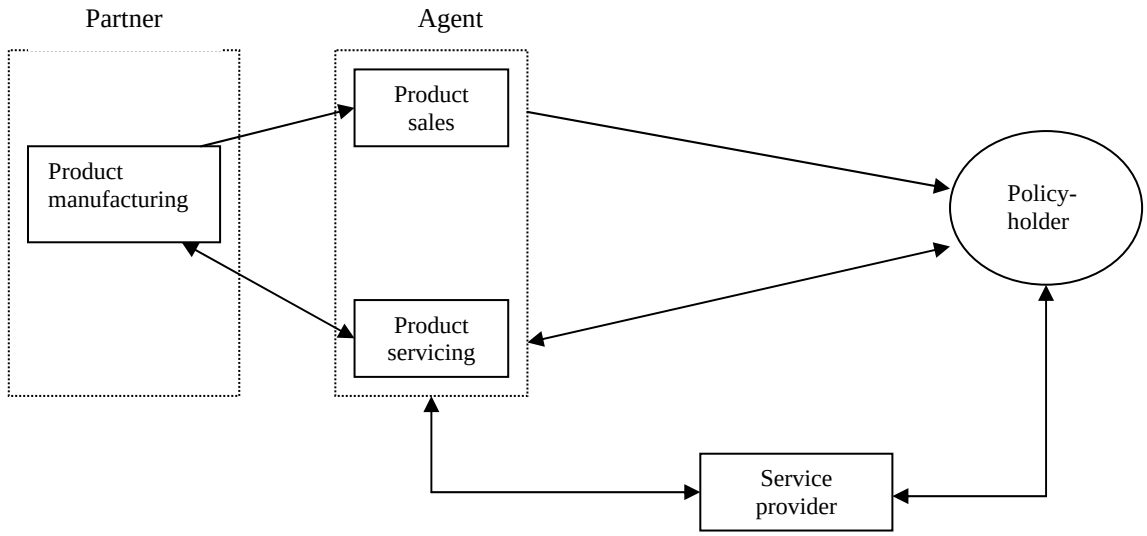
Chapter Four – Some possibilities for the future

4.1. - Accessing technical expertise

It is important to accumulate experience and expertise in providing insurance over a period of time, micro-insurance providers should begin with simple products and limited coverage (Brown & Churchill 2000). Co-operatives succeed when they combine members know how and loyalty with outside expert knowledge and innovation (Ledbeater & Christie 2000). However the costs of external consultants or qualified insurance staff is beyond the means of the micro-insurance provider. Training of co-operative leaders in insurance knowledge is also a costly process as well as time-consuming. The failures of micro-insurance programs to grow is a testament to the complexity of insurance as compared to credit or savings, therefore the need of adequate underwriting, actuarial and business planning expertise cannot be avoided if the insurance scheme is to becomee adequate, affordable and sustainable.

The most appropriate method to overcome this need is for the micro-insurance provider to become an agent for an existing and established insurance company, this arrangement benefits all parties concerned. The micro-insurance provider receives a no risk fee for administrating the business and is able to access the technical expertise, reinsurance and capital capacity of the partner. The partner is ultimately responsible for maintaining reserves, setting the price, paying claims, dealing with external service providers and complying with legal requirements. The policyholder benefits by increased access to a wider range of products with increased coverage and greater sustainability. The partner has access into a new market without taking extensive marketing, distribution and administration costs (Brown & Churchill 2000, Brown & McCord 2000, Ford Foundation 2000, Women's World Banking et al 2000, Havers 2001). More importantly the partner-agent model facilitates the pooling of risks between the formal and informal sectors. There are some issues that still need to be considered, including the limited availability of partners, the reluctance from them to cover more complex risks, difficulties in ensuring rapid payment of claims and negotiating an equal partnership (Brown et al 2000). The ICMIF has 122 established co-operative insurance organisations in 65 countries that can form partnerships with micro-insurance programs and reinforce co-operative principles (Appendix Seven).

The Partner-agent model of insurance delivery



Source: Brown and Churchill (2000).

Where a partnership cannot be formed then the micro-insurance provider should approach donor agencies to sponsor training programs or provide insurance experts to overcome their technical deficiencies and develop local competence. ICMIF as well providing potential partnerships with members, can be a training partner for the micro-insurance provider. Since 1963, the development function of ICMIF has a long and successful history of providing technical assistance and supporting popularly based organisations to set up their own insurance programs in Asia, Africa and Latin America. There are numerous experts available from member organisations who can provide advice through short-term and long-term assignments and moderate educational workshops. The diversified range of members enables the micro-insurance provider at any stage of development to benefit from advice on solutions to overcome problems in pricing, operational structure, distribution, marketing and payments. The federation also facilitates study visits and staff exchange amongst members. Additionally a number of the federation's established members provide assistance to micro-insurance programs directly:

ICMIF Members working with microfinance organisations in developing countries

ICMIF Member	Country	Countries provided with expertise and support
Folksam	Sweden	Latvia, Paraguay, Uruguay and Guatemala
FNMF	France	Mali, Senegal, Morocco, Lebanon, Poland and Hungary
MACIF	France	Cameroon, Tunisia and Senegal
NTUC INCOME	Singapore	China, Taiwan and Philippines
Développement international Desjardins	Canada	Mali, Vietnam, Senegal, Ivory Coast and Burkina Faso

Source: ICMIF (2001b).

ICMIF also provides a number of services that can support the micro-insurance provider to grow into a fully-fledged insurance company and maintain its co-operative identity. Management training can be provided through the use of specially developed simulation games in the areas of insurance and reinsurance. The ICMIF co-operative management course trains participants in the roles and responsibilities of a co-operative manager and board member, it tackles the issues of corporate governance and how co-operative and mutual principles can positively impact business results and policyholder welfare. Recently implemented in Ghana and the Philippines is a software program to facilitate accounting, claims processing, reserving, life insurance and reinsurance accounting, as well as providing an information database. This specifically tackles the information needs of a micro-insurer and is easily adaptable to any scheme or environment.

Professional networking groups, made up of experts from various ICMIF member organizations meet regularly to discuss, analyze and understand current trends and issues. The networks encompass the field of investments, IT, pensions, marketing, distribution, customer satisfaction, assistance and outsourcing. They provide an opportunity for smaller members to access experts for knowledge to apply within their own business environment. For example, the ICMIF Investment Network has put forward its best performing mutual funds and investment managers' expertise to enable other member organisations to cross invest in foreign markets. Even the smallest insurers can now gain access to a well-managed international portfolio of mutual funds and investment advice to maximize the return on their surplus.

4.2. - Overcoming Regulation

A proper insurance program safeguarding the interests of policyholders and ensuring the financial integrity of the industry must be backed by a minimum amount of capital as prescribed by regulators. In developing countries accumulated small premiums from low-income households are insufficient to satisfy capital requirements, subsequently microfinance providers predominantly remain in the informal sector.

Regulatory requirements for insurance licenses in developing countries

Country	Minimum required Life USD	Minimum required Non-life USD	Total USD
Honduras	1,600,000	1,600,000	3,200,00
Argentina	N/a*	750,000 – 2,250,000	%
Barbados	N/a	500,000 – 1,500,000	2,500,000
Puerto Rico	300,000 - 1,000,000	500,000 – 750,000	1,500,000
Colombia			4,500,000
Dominican Republic	500,000	500,000	N/a
Guatemala	380,000	380,000	1,200,000

*Figures not provided.
Source: Information provided by ICMIF member organisations as at August 2001

Whilst providing financial services through the informal sector is the most appropriate manner in accessing and serving the poor, this causes difficulties in providing adequate and sustainable insurance products. Informal insurance providers cannot access necessary capital and technical resources to develop products and pay claims effectively. Operations in the informal sector escape government monitoring, coupled with the inherent complexity of insurance products, the lack of accountability and transparency can endanger the sustainability of the scheme. Policyholders have no legal recourse if the provider becomes insolvent and is unable to pay claims, this also opens up the possibility of manipulation of the poor by rogue individuals and organisations. Additionally, the capacity of the organisation to absorb risks is imperative to the success of the insurance scheme, informal insurance providers do not have access to the reinsurance market and therefore can only provide minimal protection to the poor.

There are a number of possible ways that a micro-insurance provider may formalise its operations. Some aid agencies as well as subsidising premiums are also donating capital to micro-insurance providers to become legal entities, however these opportunities are few and far between. Many co-operative based insurers have raised the necessary capital from their members by collecting small amounts of contributions over a number of years. Partnerships between established and informal providers on a national and regional basis through fronting arrangements and partner-agent models have been discussed earlier. Collaboration between national micro-insurance schemes under a common holding structure can also achieve the necessary scale required (Appendix Eight).

Whilst some micro-insurance schemes have managed to achieve formal status through these means, there is still a need for more enabling legislation to be in place to allow more micro-insurance providers into the formal sector. Lowering of capital requirements is something that governments do not favour, mainly due to the lack of importance of the poor and the influence of large multinationals to limit the number of players in the industry. In most developing countries capital requirements are actually increasing. More effective lobbying needs to take place by international aid organisations such as the World Bank and the IMF, as they have the greatest influence with self-serving politicians. Practical solutions also need to be investigated to how the sustainability of the insurance provider can be maintained whilst lowering capital requirements. Experts from organisations such as ICMIF and its members should actively discuss and lobby with insurance regulators on how an appropriate form of “micro-regulation” could be structured which would protect the rights of the consumer and support the industry. This type of “micro-regulation” or rules should be implemented into existing informal schemes to show regulators that schemes can maintain their financial integrity with lower capital bases. An example of such a set of rules has been

developed for credit unions by the WOCCU[43] who also are active on the International Basle Committee. Additionally, governments should encourage microinsurance providers to partner with established insurance companies nationally and globally as a means to provide the excluded with more protection (Appendix Seven).

4.3. – Obtaining reinsurance

'Reinsurance is the shifting of part or all of the insurance originally written by one insurer to another insurer" (Brown & Churchill 1999)

Once insurance operations have become formalised and there is adequate training of staff, the immediate need for the micro-insurance provider is to obtain reinsurance cover. Reinsurance enables companies to grow beyond the restrictions of their reserves, it stabilises financial results against unexpected claims, protects against catastrophic losses, facilitates access to new technologies and provides increased risk cover to the policyholder. In the first few years of operations the solvency of the micro-insurer is at its most vulnerable, reinsurance allows claims to be paid quickly and underwriting experience to be achieved, whilst still maintaining premium levels and enhancing the credibility of the scheme (Ripoll 1996, Brown & Churchill 1999, Brown & Churchill 2000).

Many developing countries require reinsurance to be placed with local reinsurers due to political considerations and foreign exchange policies, however, domestic players are able to provide minimal retention capacity[44] (Outreville 1996, Matringe 1997, IDB 1977). The absence of futures markets and reinsurance companies would normally leave the state responsible to bear the risk (Matringe 1997). Unfortunately in developing countries the government does not have the capacity to compensate for a natural disaster. Consequently, they have to rely on external aid and post disaster funding to cope with the consequences of these events, but these sources are also becoming limited in supply against growing demand (Pollner 2001). There is a need to transfer this risk onto the international insurance and reinsurance markets. International reinsurers are more diversified than local reinsurers, but here too the frequency of global catastrophes[45] mean that available reinsurance is also short in supply and quite expensive[46] (Pollner 2001, Outreville 1996). Consequently, many newly established (formalised) micro-insurers are finding it very difficult to obtain adequate and affordable cover locally and internationally (Matringe 1997). Even when a

[43] The PEARLS evaluation program is a set of financial ratios used to monitor the stability of credit unions (**P**rotection, **E**ffective financial structure, **A**sset Quality, **R**ates of return and cost, **L**iquidity and **S**igns of Growth).
[44] The retention capacity is a function of the size of the market, financial development, market structure and local reinsurance (Outreville 1996).
[45] 1999 was the third highest in terms of insured losses from catastrophes $18 billion and 1998 was fourth highest with $15 billion (Pollner 2001).
[46] During the mid-1990s, Caribbean countries experienced insurance rate increases between 200%-300% due to indemnity payments made for large hurricane and earthquake cover worldwide (Pollner 2001).

reinsurance company provides the cover, the lack of adequate profits may mean terms so strict that the cover is uneconomical for the insurer. There is a need for the reinsurers to be supportive and specific to the growth and environment of a micro-insurer.

Co-operative insurers in developing countries can obtain favourable coverage from co-operative reinsurers in developed countries due to the principle of collaboration for mutual advantage (IDB 1977). ICMIF has been facilitating reinsurance cover between its members since 1949. As well as assisting larger members ICMIF has been instrumental in providing flexible and affordable "micro-reinsurance" for a number of newly registered and small start-up companies in developing countries. The unique spirit of co-operation of ICMIF members has enabled cover to be provided to these companies where non-was available from the market. Staff at ICMIF also provide consultancy on accounting techniques, business planning, product development and training on reinsurance provision to ensure liabilities and solvency requirements can be met in the future. The growth of the Co-operators General Insurance company in Barbados and Co-op Seguros in Dominican republic are two examples of how reinsurance through ICMIF and the spirit of co-operation has provided for the needs of the poor (Appendix Eight).

Reinsurance appears not an important consideration for microinsurance providers as the probability of them reaching formal status is limited. However, an understanding of reinsurance is imperative to ensure they limit the type of policies and size of coverage they offer without reinsurance. Another option for the independent informal provider is to self-insure, this can be achieved by obtaining or accumulating sufficient capital from current insurance operations, donor agencies or from affiliated organisations. There have also been discussions on providing access to reinsurance for informal providers by using the concept of risk sharing. A model originally put forward by Michael Gudger is based on the principles of co-operation and collaboration between micro-finance institutions to achieve the necessary scale and diversification to make it feasible for reinsurance. This model can also be extended on a regional and an international basis and is being investigated by ICMIF and its experts (Appendix Nine).

4.4. – Embracing globalisation

Increasing mergers and acquisitions mean that the operations of smaller players are being diluted into the strategies of larger established insurance companies. Changing insurance legislation and liberalisation of markets have increased foreign interests in previously closed markets. Globalisation means that developed markets are quickly being saturated and hungry multinationals are looking to tap into developing countries. Foreign companies have

formed partnerships with domestic players, trading their technical expertise, technological advancement and financial strength for entry into the local market. These new entries instantly target the cream of the market, once the profitable market is captured they then focus on middle and low-income communities as a means of increasing market share. Multinationals are influencing governments to raise capital requirements and force players to merge, many providers to low income communities have lost their insurance license as a result (Vogt 1999).

One of the ways for smaller insurers to survive and to continue serving the interests of the poor is to form strategic alliances with like-minded organisations. Strategic alliances can be formed through different areas of business such as underwriting, actuarial, product development, distribution and risk management. Strategic alliances can improve flexibility, reduce risk and costs, and increase efficiency, competitiveness and technical capacity. The benefits of a strategic alliance have to be balanced with the loss of independence, limited governance, sharing of profits and disclosure of competitive information. It is therefore important that the partner chosen is one that has the same philosophy and principles. To facilitate strategic partnerships between microfinance institutions there is a responsibility on international associations that provide services to the poor to build relationships between projects and members at a national and regional level. Many aid agencies work in the same country and can work together to provide a comprehensive range of microfinance products. The existing collaboration between the various functions of the ICA of agriculture, health, housing, banking and insurance have provided numerous benefits to the poor. A similar collaboration between ICMIF and WOCCU would increase credit unions providing micro-insurance to their members. ICMIF membership itself enables alliances to take place between members on a national, regional or international basis, either informally through the exchange of information, reinsurance and technical expertise or formally by establishing joint venture operations to mutually benefit both parties.

Chapter Five - Concluding remarks and recommendations

'The United Nations Conference on Trade and Development (UNCTAD) endorses that co-operative insurance, complimenting other forms of insurance, has a special role to play in the over-all development process.'
UNCTAD (1977)

5.1. - The Importance of insurance to poverty alleviation

The conditions for growth and the degree of inequality are two key factors that determine the extent of poverty reduction from per capita economic growth. The lower the inequality levels the more positive effect economic growth has on poverty levels[47]. The link between economic prosperity and human development is dependent on the effectiveness of countries to convert income into better lives for all their citizens (UNDP 2000)[48]. The international development target of halving the proportion of people living in extreme poverty by 2015 can be attained by low-inequality countries without any change in their growth pattern and with lower growth rates. However, high-inequality countries will only reach the target if growth is pro-poor and significantly higher than in the past (twice that of low-inequality countries). If all countries belonged to the low-inequality group then a forecasted growth of four percent per annum would realise the target as early as 2005 (Hanmer et al 2000).

Projected poverty in 2015 for high and low-inequality countries

	Poverty incidence 2015 as % of 1990 level		Annual per capita growth needed to halve poverty by 2015	
	No change, past growth	Pro-poor, Higher growth	With no change	With pro-poor conditions
High in-equality countries	68	**49**	7.1	3.7
Low-inequality countries	**47**	**33**	3.7	1.5

(Bolded figures reflect where poverty target is achieved)
Source: Hanmer et al (2000).

[47] An analysis of developing countries between 1985 and 1990 showed a 10% economic growth level in low inequality countries (Gini Coefficient =0.34) resulted in a fall of 9 percentage points of people below the poverty line. In high inequality countries (Gini Coefficient=0.55) the poverty reduction was only 3 percent (Hanmer et al 2000).
[48] Of the 174 countries surveyed, 97 rank higher on the HDI then on GDP per capita (PPP US$) and 69 rank lower (UNDP 2000).

Poverty in 1990 and future projections of poverty in 2015

Poverty (% under $1 a day at 1985 purchasing parity price)	1990	2015 No change in conditions		2015 Pro-poor higher growth rate
		A	B	
Sub-Saharan Africa	44	42	36	25
Middle East & North Africa	3	2	1.6	**1**
East Africa and Pacific	31	**12**	**12**	**9**
South Asia	47	30	24	**16**
Latin America & Caribbean	28	19	17	**12**
Eastern Europe & Central Asia	9	5	4	**3**
Developing countries	36	22	**18**	**13**

A - No change in main conditions of growth and economic growth rates remain the same as between 1965 and 1997.
B – No change in main conditions but assumes forecast (usually higher) growth rates.

(Bolded figures reflect where poverty target is achieved)
Source: Hanmer et al (2000).

Whilst growth of average household incomes of the poor is necessary to achieve sustained long-term poverty reductions, growth in overall per capita income is of no benefit if there is increasing inequality (McKay 1997). Gender inequality, in particular, is one of the largest constraints on growth and poverty reduction, an increase in number of girls in school and female literacy will reduce poverty, reduce fertility and improve child survival (Hanmer et al 2000).

Evaluating the impact on poverty of any program is difficult to measure, as poverty itself is not precise. Attention in the past has focused on income, expenditure, consumption and assets. More recently, focus has been on social indicators such as educational status, nutritional levels, access to health services and empowerment of the individual, measuring empowerment requires a greater level of skill and complexity of calculations (Hulme 1999). Insurance can assist in achieving greater equality and empowerment of the poor by protecting them against unforeseen losses and giving them the courage to improve their productivity and livelihood through access to education, health and labour. For many years MFIs focusing on providing loans and savings were ignored, there was a perception that the poor could not and would not save. The popularity of these schemes have shown that the poor do have a propensity to save and to repay loans, with numerous successful and sustainable credit and savings program in place around the world. However, the number of people in poverty and the rate of inequality is still rising. Savings and loans are not sufficient on their own to prevent people from falling back into the viscous circle of poverty in times of crisis or severe loss. Providing insurance can ensure that the foundations on which poverty alleviation is built is strong enough to keep the individual out of poverty. Products such as loan protection, life savings and health insurance

should be introduced at an early stage into the services of a microfinance program instead of a ‘nice to have’ much further down the line. The role of insurance needs to be given equal importance to that of loans and savings, indeed the success of loan and savings schemes depends on the availability of complimentary insurance products.

Improved access to financial services does not necessarily mean that the material and social welfare of the poor will be improved. Provision of insurance does not provide cures for diseases, food, clean water, shelter, schools, law and order or even the basic rights of human beings, the poor are continuously ‘kept in place’ by corrupt regimes and greedy multinationals. So the question is how can insurance empower people when their day to day necessities are restricted? Insurance enables the poor to dedicate more time and resources to obtaining these necessary services, it gives them confidence to confront risks and gives them peace of mind in an uncertain environment, benefits which cannot be measured. Insurance protects the disposable income of the poor, it enables them to invest in their business, their children’s education, accommodation, and access adequate sanitation and clothing, providing a better chance to pursue and achieve a better standard of living. Protection against the costs of health services enables the poor to participate more and derive benefits from new economic activity, and access new technologies. In developing countries money talks, if you have the funds you are able to find the means, improved welfare of the poor will enable greater rights and a voice that will demand to be heard. Schemes such as the SEWA Insurance scheme in India is a prime example of how insurance can also support gender equality and empower the woman to achieve a better standard of livelihood. Insurance with other microfinance products enables the poor to come together to defeat the common foe of poverty and overcome the challenges that continuously try and keep them down.

The poorest of the poor are excluded from accessing microfinance programmes due to their lack of income. Microinsurance is only appropriate for those that have an income and therefore is limited to what it can do for the poorest. This does not mean that the needs of the poorest should be ignored and they should only be provided with short-term measures such as food rations, water and shelter. The quest is to make people self-sufficient, to give them the confidence and the means to achieve a better standard of living. The poor themselves are the most determined to escape from their situation, they are very proud people and have the greatest concern for their families welfare, particularly women, but are prevented by factors which are outside of their control. Aid in the form of food, water and sanitation should be provided to the very poor, but there should be an investigation into the effects on long-term livelihood and moral if they were provided access to selected insurance products whose premiums were paid for (or subsidised) in the initial years. Subsidised savings and loans while useful can and are used for other

means, whilst insurance is designed to protect against a certain loss or event occurring and therefore is less open to misuse.

Providing insurance products successfully can also become an important income stream for the microfinance institute and protect its loan portfolio. The Grameen bank is reported to be experiencing high delinquency rates on its loan portfolio[49] due to the effects of floods in Bangladesh in 1998, inadequate provisioning, and competition from other lending institutes (Pearl and Phillips 2001). Whilst cover against the frequent flooding in Bangladesh may not be available, the low take up of Grameen's microinsurance scheme (around 30,000 policyholders) means that the majority of Grameen lenders are vulnerable to other more frequent perils. This has the effect of weakening even further their ability to survive a catastrophic event such as flooding. A successful microfinance institute will benefit the local community in the form of more efficient and effective services, and also additional income if the institute is a co-operative. The benefits of protection and better financial services to a micro-enterprise can increase potential household income, leading to greater household security, better morbidity and mortality of household members and eventually improved education, and social and economic opportunities.

Insurance is not the be all or end all of poverty alleviation, it is not the 'magic' solution to problems of the poor but if appropriately provided it can play an important role in ensuring sustainable development and poverty alleviation. The full benefits of insurance cannot be realised in the unique environment of a developing country. There does need to be more resources put towards: improving access to capital, pro-poor social expenditure, employment opportunities, illnesses prevention, population control, regulatory systems, institutional reform, infrastructure, political stability, democracy, social equality and a stable economy. But hand in hand with these developments the role of insurance is of equal importance for long term sustainable success in poverty alleviation and reducing overall inequality.

5.2. – Delivering insurance to the poor

An insurance scheme for the poor which is affordable, adequate and sustainable is difficult to achieve due to lack of financial capital, technical resources, adequate numbers, trusts, regulatory requirements, transparency and accountability. The road to achieving a comprehensive insurance scheme is full of pitfalls and must be undertaken cautiously and carefully with good corporate governance at the heart of each step. The appropriate form for

[49] For the whole bank 19% of loans are one year overdue, and in some areas half the loan portfolio is overdue by at least one year (Pearl and Phillips 2001).

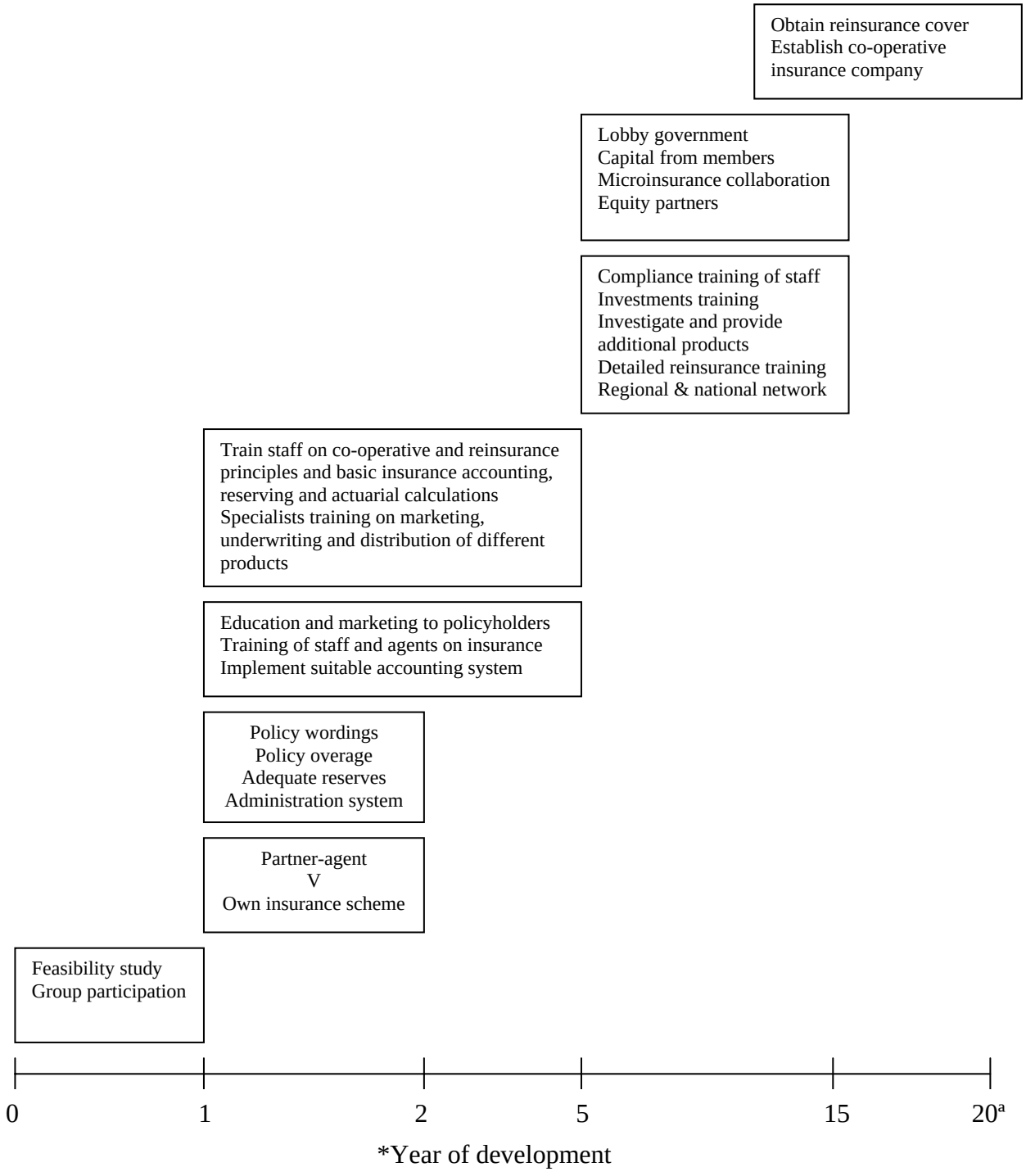
servicing the poor and one that has been used for centuries is that of a co-operative. A good co-operative will serve the needs of members, providing flexible, affordable and appropriate products. As the scheme belongs to the poor it will minimise fraud and moral hazard, and encourage participation. Partnerships with technical advisors, international donors or organisations such as ICMIF are imperative to ensure that the organisation grows into a self-sufficient, licensed insurance co-operative (or at least is able to provide a comprehensive range of products on a sustainable basis). The co-operative identity will ensure that the needs of the poor are not ignored as has been the case with so many other large non-co-operative insurance companies in developing countries. Implementation of co-operative schemes can also provide security to large populations of Muslims in poor countries.

The environment of each country, each region and each village is different and its insurance requirements are also unique, therefore to put forward a standardised approach to establishing a micro-insurance scheme would be impractical. However the following process summarises the main thoughts of this paper to achieving a sustainable and viable insurance scheme:

Providing insurance to the poor

STEP ONE	Year zero	Undertake feasibility study on the demand for insurance within a pre-existing group such as a credit union or co-operative. It is beneficial that savings and credit facilities are already available to cover small losses of client and introduce a saving culture. The scheme should be compulsory or have a sufficient number of policyholders determined before it becomes active, it should also cover a wide range of risks and minimise exclusion.
STEP TWO	Year one	Search for a partner from an established insurance company, preferably a co- operative and negotiate an appropriate agreement for distribution, training, products and reinsurance. OR Set up own insurance scheme, separate to existing services, with limited coverage and simple products (e.g. loan protection and life insurance) and confirm with donor agency or organisations like ICMIF for long term technical assistance and training needs.
STEP THREE	Year one	Establish clear and concise policy wordings, product coverage, administration system for dealing with applications ,claims and payment. Ensure adequate capital reserves.
STEP FOUR	Year one to five	Education and marketing of insurance concept to policyholders, training of staff on principles and practices of insurance, implement an accurate and timely accounting and information system.
STEP FIVE	Year one to five	Train staff on co-operative principles, reinsurance, insurance accounting, reserving, actuarial calculation and specialist training on different product lines
STEP SIX	Year five to fifteen	Regulatory compliance training for staff, training on investments. Investigate and expand in different product lines, more intense reinsurance training and administer a regional and national network of branch offices.
STEP SEVEN	Year five to fifteen	Investigate potential collaboration with other micro-insurance schemes, find equity partners from the co-operative movement or from a feasible established insurer or raise capital from members and lobby government for enabling legislation.
STEP EIGHT	Year fifteen to twenty	Obtain reinsurance cover and move towards setting up own co-operative insurance company.

The path towards a viable and sustainable micro-insurance scheme



*The number of years for the micro-insurance provider to complete each 'step' would be dependent on the ability, dedication and motivation of the managers of scheme, the quality of the technical partner, membership size, good corporate governance and local regulatory requirements. In particular, the activities in the first few years will determine the success of the scheme as demonstrated by the diagram.

[a] If the provider decided to aim for formalisation then it is envisaged that twenty years would be the longest period of time it should take to achieve legal status.

5.3. – The way forward

Years of subsidies and grants have not achieved any recognisable inroads into poverty alleviation. It is only recent investigation into the real reasons preventing sustainable growth out of poverty that the role of risk protection mechanisms has been acknowledged. There is a responsibility now for governments and international aid organisations to create an enabling environment for the development of social protection mechanisms to the poor. Long term solutions that build towards a better life for future generation are more beneficial to the cause of poverty alleviation than subsidies that support short-term measures. International agencies working with the poor such as ICMIF, WOCCU, ICA, CGAP, USAID and Freedom from Hunger need to collaborate and share information and projects to a greater extent. The onus is on industry experts and representatives such as ICMIF to form partnerships to investigate innovative ways to overcome the needs of the poor and make more modern risk transfer mechanisms such as commodity pricing, weather protection and crop insurance available and work in practice for the poor. The technical expertise and training facilities of organisations such as ICMIF should be used to support more microinsurance programs to become viable and sustainable. The overriding aim should be to get the most effective assistance to the most people in the most efficient way.

There needs to be greater involvement of the poor in guiding development projects and less reliance on national governments and academics who believe they know what the issues are. The poor desire to be empowered, they are in the best position and have the greatest determination to escape poverty, all they want is a fair chance to achieve it. Co-operative insurance, through the protection and solidarity it provides, and its pro-poor principles, empowers individuals to have the capability to secure a better future for themselves and for subsequent generations.

Appendix One

The plight of the poor in low human development countries

HDI rank 1998	Country	HDI value 1998	GDP per capita (PPP US$) 1998	GDI value 1998	Population without access			Share of income or consumption	
					To safe water (%) 1990-98	To health Services (%) 1981-93	To sani-tation (%) 1990-98	Poorest 20% (%) 1987-98	Richest 20% (%) 1987-98
140	Lao People's Dem. Rep.	0.484	1,734	0.469	32	0	-	9.6	40.2
141	Madagascar	0.483	756	0.478	32	0	-	5.1	52.1
142	Bhutan	0.483	1,536	-	42	20	30	-	-
143	Sudan	0.477	1,394	0.453	27	30	49	-	-
144	Nepal	0.474	1,157	0.449	29	90	84	7.6	44.8
145	Togo	0.471	1,372	0.448	45	-	63	-	-
146	Bangladesh	0.461	1,361	0.441	5	26	57	8.7	42.8
147	Mauritania	0.451	1,563	0.441	63	70	43	6.2	45.6
148	Yemen	0.448	719	0.389	39	84	34	6.1	46.1
149	Djibouti	0.447	1,266	-	32	0	-	-	-
150	Haiti	0.440	1,383	0.436	63	55	75	-	-
151	Nigeria	0.439	795	0.425	51	33	59	4.4	55.7
152	Congo, Dem. Rep. of the	0.430	822	0.418	32	0	-	-	-
153	Zambia	0.420	719	0.413	62	25	29	4.2	54.75
154	Côte d'Ivoire	0.420	1,598	0.401	58	40	61	7.1	44.3
155	Senegal	0.416	1,307	0.405	19	60	35	6.4	48.2
156	Tanzania, U. Rep. of	0.415	480	0.410	34	7	14	6.8	45.5
157	Benin	0.411	867	0.391	44	58	73	-	-
158	Uganda	0.409	1,074	0.401	54	29	43	6.6	46.1
159	Eritrea	0.408	833	0.394	32	0	-	-	-
160	Angola	0.405	1,821	-	69	76	60	-	-
161	Gambia	0.396	1,453	0.388	31	-	63	4.4	52.8
162	Guinea	0.394	1,782	-	54	55	69	6.4	47.2
163	Malawi	0.385	523	0.375	53	20	97	-	-
164	Rwanda	0.382	660	0.377	21	-	-	9.7	39.1
165	Mali	0.380	681	0.371	34	80	94	4.6	56.2
166	Central African Republic	0.371	1,118	0.359	62	88	73	2.0	65.0
167	Chad	0.367	856	-	32	0	-	-	-
168	Mozambique	0.341	782	0.326	54	70	66	6.5	46.5
169	Guinea-Bissau	0.331	616	0.298	57	36	54	2.1	58.9
170	Burundi	0.321	570	-	48	20	49	7.9	41.6
171	Ethiopia	0.309	574	0.297	75	45	81	7.1	47.7
172	Burkina Faso	0.303	870	0.290	58	30	63	5.5	55.0
173	Niger	0.293	739	0.280	39	70	81	2.6	53.3
174	Sierra Leone	0.252	458	-	66	64	89	1.1	63.4

HDI (Human development index) – composite index based on life expectancy, educational attainment and standard of living. A HDI below 0.500 reflects low human development and well being.

GDI (Gender-related development index) – composite index using same variables as HDI but adjusted in accordance with the disparity in achievement between women and men. A GDI of less than 0.500 show that women in these countries suffer the double deprivation of low overall achievement in human development than men.

Source: UNDP (2000).

Appendix Two

The availability of insurance to the poor

HDI rank 1998	Country	HDI value 1998	GDP per capita (PPP US$) 1998	Insurance density: premiums per capita 1998 (USD) *	Insurance penetration: premiums as a share of GDP 1998 (%)*	World population 1998 (%)	World insurance market 1998 (%)*	World insurance Market 2000 (%)*
48	Costa Rica	0.797	5,987	69.0	2.34	0.06	0.01	0.00
49	Croatia	0.795	6,749	133.7	2.94	0.08	0.03	0.01
55	Mexico	0.784	7,704	62.9	1.52	1.65	0.29	0.33
59	Panama	0.776	5,249	119.8	3.59	0.05	0.02	0.01
60	Bulgaria	0.772	4,809	16.1	1.08	0.14	0.01	0.00
61	Malaysia	0.772	8,137	133.4	4.02	0.37	0.13	0.13
62	Russian Federation	0.771	6,460	29.4	1.56	2.53	0.20	0.19
63	Latvia	0.771	5,728	60.8	2.34	0.04	0.01	0.00
64	Romania	0.770	5,648	12.1	0.71	0.39	0.01	0.00
65	Venezuela	0.770	5,808	76.5	1.89	0.40	0.08	0.00
68	Colombia	0.764	6,006	51.3	2.33	0.70	0.10	0.03
71	Mauritius	0.761	8,312	157.2	4.32	0.02	0.01	0.01
72	Libyan Arab Jamahiriya	0.760	6,697	35.9	-	0.09	0.01	-
74	Brazil	0.747	6,625	103.3	2.15	2.85	0.78	0.14
75	Saudi Arabia	0.747	10,158	39.1	0.52	0.35	0.04	0.00
76	Thailand	0.745	5,456	41.5	2.28	1.04	0.12	0.12
77	Philippines	0.744	3,555	13.0	1.50	1.25	0.05	0.04
78	Ukraine	0.744	3,194	6.4	0.76	0.88	0.01	0.00
80	Peru	0.737	4,282	23.3	0.90	0.43	0.03	0.01
82	Lebanon	0.735	4,326	140.4	2.69	0.06	0.02	0.01
84	Sri Lanka	0.733	2,979	10.0	1.20	0.32	0.01	0.01
85	Turkey	0.732	6,422	33.1	1.06	1.11	0.10	0.03
86	Oman	0.730	9,960	58.5	0.87	0.04	0.01	0.00
87	Dominican Republic	0.729	4,598	29.0	1.70	0.14	0.01	0.00
91	Ecuador	0.722	3,003	21.5	1.32	0.21	0.01	0.00
92	Jordan	0.721	3,347	29.8	1.90	0.11	0.01	-
97	Iran, Islamic Rep. of	0.709	5,121	18.6	0.67	1.13	0.05	0.00
99	China	0.706	3,105	11.4	1.49	21.58	0.66	0.79
101	Tunisia	0.703	5,404	35.4	1.65	0.16	0.02	0.00
103	South Africa	0.697	8,488	571.6	3.49	0.68	1.15	1.16
104	El Salvador	0.696	4,036	22.7	1.16	0.10	0.01	0.01
107	Algeria	0.683	4,792	9.1	0.54	0.52	0.01	0.00
108	Vietnam	0.671	1,689	1.8	0.51	1.33	0.01	0.00
109	Indonesia	0.670	2,651	5.8	1.27	3.55	0.06	0.05
111	Syrian Arab Republic	0.660	2,892	23.0	0.52	0.26	0.02	-
119	Egypt	0.623	3,041	8.5	0.65	1.13	0.02	0.01
120	Guatemala	0.619	3,505	16.2	0.92	0.19	0.01	0.00
124	Morocco	0.589	3,305	33.8	2.60	0.47	0.04	0.02
128	India	0.563	2,077	8.6	2.61	16.88	0.39	0.50
130	Zimbabwe	0.555	2,669	27.9	3.92	0.20	0.01	0.01
135	Pakistan	0.522	1,715	2.9	0.66	2.55	0.02	0.01
138	Kenya	0.508	980	9.5	3.48	0.50	0.01	0.00
151	Nigeria	0.439	795	2.7	0.86	1.83	0.02	0.00

HDI (Human development index) – composite index based on life expectancy, educational attainment and standard of living. A HDI below 0.500 reflects low human development and well being.

*Only those 88 countries with premium volumes more than USD 150 million have statistical data provided in Sigma

Source: UNDP (2000), Sigma (1999) and Sigma (2000).

Appendix Three

Problems of providing insurance to the poor

Case study 1: Self-Employed Women's Association (SEWA), Ahmedabad, India

SEWA is a trade union based in Ahmedabad city of Gujarat state in India. Since 1972 it has been organising poor, self-employed women of the informal sector, these women come from different occupations ranging from vendors, home-based workers and service providers. SEWA provides supportive service to 350,000 women in the form of healthcare, childcare, housing, training, full employment, self-reliance and insurance. In 1974 SEWA established a bank to provide savings and credit services to poor women, it has 175,000 depositors and close to 40 crores rupees (about US $ 8 million) working capital (Pandya 2001).

In India more than 90% of the workers are in the informal sector, of the total women workforce almost 94% are in the informal sector. In 1992 through the collaborative effort of SEWA, SEWA Bank, the Life Insurance Corporation of India (LIC) and the United India Insurance Corporation of India, an integrated insurance program was started insuring women for life, health, assets, widowhood and accidents. The scheme now covers 90,000 women and men and is also linked to fixed deposit schemes at SEWA bank where the interest can pay premiums (SEWA 2000). In the last few years SEWA Insurance have been faced with a number of challenges, despite severe drought conditions LIC increased its annual premium by fifty percent (Rs 7.50). Heavy rain and flooding in July resulted in over 1000 claims for damages to houses and work tools, the earthquake of 2001 resulted in over 600 claims alone and lower interest rates meant that larger fixed deposits would be required (SEWA 2000). Without access to reinsurance the viability of the scheme is very much at risk from exposure to such large losses even with assistance from the GTZ fund, the insurance industry and SEWA family. The high capital requirement of Rs 100 crores ($23 million) prevents SEWA entering into the mainstream as an insurance company and accessing reinsurance markets. SEWA therefore needs to spread the risks of the scheme across a larger number of people and different income groups to try and achieve sustainability of its operations. With the assistance of a group of donors led by CGAP, SEWA has put together a business plan which forecasts full operational viability by Year 6 (2008). To manage the enhanced volumes of business and services required SEWA need to have in place professionals with technical and managerial skills different to those required by a trade union. To keep costs low there is a requirement to invest in computerization and make information flow and administration more effective and efficient. There is also a need to build up a reserve fund to cover the sharp increases in claims from catastrophic events. Without external funding and support, sustainability and full operational viability could not be achieved in the near future.

During my visit to SEWA in November 2001 I discussed with policyholders in two slum areas one rural and one urban in the Ahmedabad district on their need and understanding of insurance. Within the group of women the SEWA village representative was the most informed in terms of the coverage, exclusions and working of the insurance policy. There were quite a few women who had made claims and were very pleased with the reimbursement they received, however, there were some women who had not renewed their policy when the term elapsed as they had not made a claim. Within the villages there was still a large number of people without coverage, this was due to lack of affordability or lack of trust in insurance due to previously badly run government schemes.

The SEWA village representatives did not appear to have the right skills to educate the clients and there was no financial incentive (commission/bonuses) for them to increase the number of policyholders and maintain existing ones. Some members did not realise that their premiums would not be returned if they did not make a claim, others were not aware of the exclusions in the policy and limitations of coverage. When a SEWA claim is not paid the credibility of the policy is destroyed throughout the village, bad news travels fast and currently there is no effective mechanism in place to explain why claims are denied not only to the policyholder but to the village as a whole. If a genuine misunderstanding has taken place then premiums either should be returned or carried forward another year (although this should be done carefully as not to form a precedent). The benefits of long-term protection for policyholders and their families even if a loss is not incurred immediately, and the understanding that more people into the scheme would lead to lower premiums and/or additional coverage, is unclear. There are no incentives in place for current policyholders to remain claim-free using premium deductions or additional coverage. The benefits of risk pooling was not clearly understood and neither was the fact that the long term sustainability of the SEWA scheme depends on members not undertaking fraudulent or risky behaviour. When claims are paid the benefits of the policy need to be promoted, this is important where the member has had a policy for a number of years without making a claim. Subsequently, examples of those that did not have insurance and suffered a loss should also be made available to non-policyholders.

There needs to be greater research into the elasticity of premiums of SEWA members, many members did not feel the premiums were too high and may be able to pay a little more. Others felt it would be easier if they could make smaller regular payments than a large one off payment. The idea of the village representative collecting monthly premiums and then SEWA collecting on a quarterly basis was seen as a possibility to encourage other less well off to participate into the scheme or buy into additional coverage. Many of the members were unwilling to take time off from working in the fields to spend the necessary time in the hospital, others could not afford the costs of travelling to a treatment centre and instead paid extortionate prices to mobile general practitioners. Convenience is just as important to the poor as the price. Encouragement is needed for those that cannot buy into the scheme to access coverage, either by special donation schemes or by the village community contributing a little extra to pay for those that need the protection the most. (This could be something that is implemented using SEWA's surplus in future years). The immediate resources of SEWA need to be directed to educating and encouraging the policyholders and motivating the village representatives to market products and control and monitor claims. The right infrastructure needs to be in place to provide efficient and effective services to a growing number of poor clients.

Case study 2: The Asian Confederation of Credit Unions (ACCU), Bangkok, Thailand

Formed in 1971, ACCU represents 15 national movements serving over fourteen thousand credit unions with nine million individual members in thirteen countries. The mission of ACCU is to promote and strengthen credit unions to enable them to facilitate the socio-economic development of people (ACCU 2000a). A number of credit unions have undertaken micro-insurance programs predominantly providing protection against savings and loans. However, the nature of insurance is far more complex than providing credit and savings products and a number of credit unions are experiencing difficulties in providing sustainable and viable programs. In May 2000 ACCU invited myself and two ICMIF insurance consultants to facilitate a workshop on strategies and alternatives for loan protection and life savings programs in credit unions. The 20 participants represented 10 organisations of credit unions and co-operatives and discussed the challenges and opportunities facing member-federations on insurance business. A number of problems were outlined over the two day workshop but two central concerns were highlighted which were preventing adequate and affordable insurance products to be provided to the poor. Firstly, the high regulatory requirements in respect of minimum capital meant that small insurers providing at the local level were operating on an informal and illegal basis. Previously, credit unions in Bangladesh, Indonesia and Sri Lanka were provided protection by CUNA Mutual, an American credit union based insurance company. The withdrawal of CUNA Mutual in 1998 from these countries meant there was now a critical problem in obtaining reinsurance cover and ensuring the solvency of the schemes. Without reinsurance the level of cover and nature of risk protection provided to the poor is limited to the premiums and reserves of the credit union, this is minimal as with low-income households premiums are small and reserves difficult to accumulate. The second issue raised was the need for technical expertise, providing insurance on a prudent basis for credit unions is a complicated process, without adequate underwriting, actuarial and business planning expertise available the credit unions have found it difficult to pay claims promptly. For the credit union these skills are unavailable in the local community and too expensive to purchase on the open market (ACCU 2000b).

Appendix Four

Providing insurance products to the poor using the co-operative structure

Case study3: Mutual health organisations in Mali

Mutual health organisations (MHOs) and Community-based health insurance schemes (CBHI)) are community and employment-based groupings that have been growing progressively in West, Central, South and East Africa. Whilst these are small and medium sized organisations covering a small fraction of the population, they provide significant contribution to health care access to people in informal and rural sectors. MHOs in Africa usually grow out of mutual aid organisations set up initially to provide members with a range of social security benefits such as funeral grants, birth allowances and retirement benefits[50]. Health care benefits are designed to improve members' access to quality healthcare by spreading the costs and risks of members' illness and provide acceptable facilities where ones do not exist. The growth of MHOs have been supported by governments and donor agencies who have recognised the potential for increasing access to health care services to otherwise under-served communities. The contributions MHOs levy on their members are not excessive in relation to average income [51]. Most MHOs have standardised organisational structures that involve members in decision-making and require accounting and transparency from managers (Atim 1998).

In Africa MHOs lack training in administration and management areas including MHO-specific skills needed to deal with providers, check appropriateness of healthcare, ensure accurate costing, set premiums and benefits correctly and support preventive health measures and education. Whilst the provision of existing social security benefits are relatively easy as they require a simple savings scheme, health insurance benefits are more unpredictable and require a certain degree of actuarial expertise. Voluntary schemes in Africa have a penetration hardly rising above fifty percent, due to long waiting periods or no options in paying dues in kind. Provider owned MHOs lack effective independence to ensure that members are obtaining sufficient quality of care. There are other problems facing MHOs in Africa such as morale hazard, adverse selection, costs escalation and fraud. To tackle these issues the MHO relies on its strong solidarity culture to enforce a social control on any potential abuse[52]. MHOs in larger villages operate a system of deductibles, co-payments, mandatory references and ceilings on coverage (Atim 1998, Musau 1999).

Mali is the first to create a nation-level MHO development and support agency, the Union Technique de la Mutalit Malienne (UTM), which is assisted funded by Fonds d'Aide la coopération (FAC) and assisted by FNMF(Mutualité Française). Mali is also the only country in Africa that has developed legislation specifically for mutual organisations (Atim 1998)[53]. In the late 1980s, as with most countries, Mali abandoned the principles of free state welfare provision and introduced a system of user fees. Almost 80% of the country work in the informal and rural sector and do not have access or cannot afford user fees. A special program was put in place to develop mutuals for health with the assistance of Cooperation Francaise and its technical partner FNMF, in collaboration with the UTM and Mali government. There are many types of mutuals in existence in Mali covering different professions, some mutuals do offer funeral cover and a basic life insurance cover, but no insurance on health. The objective of the program is to use the existing solidarity of the mutuals, its member focus and not for profit basis as a cost effective and efficient way to distribute health insurance schemes to the poor.

The mutual for cotton farmers in Nongon was used to test the feasibility of providing health insurance products. In 1994 the mutual successfully created a community health care centre, and in 1998 a contribution of 5 CFA per Kg of cotton was asked as contribution to a health insurance scheme. The strong priority of health as a means to ensure continuos work and continuos income provided a high demand for the scheme amongst the cotton workers. Today the scheme is successfully providing benefits to women for maternity, child benefits up to the age of seven and benefits for men up to 50% of consultation and prescription.

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[50] Mutuelle des travailleurs de l'education et de la culture (MUTEC) was founded by a teacher's union in Mali in 1987 to address teachers needs for pension benefits. The MHO of Fandène in Senegal was founded in 1989 by the village community to improve the access of its members to quality health care (Atim 1998).

[51] The rural MHO Lalane Diassap, Senegal dues are FCFA 150 per person per month, the average income of the peasants is FCFA 15,000 per month, for the average family of five the contribution would be 5 per cent of total family income.

[52] Members are required to visit a group member in hospital to show concern but also validate the injury and identity of the claimant

[53] The general Law on Mutualité (Law No. 96-022) was passed on February 21, 1996, following a number of decrees covering rules, regulations, registration and management of funds.

The success of the scheme encouraged UTM with the assistance of FNMF to launch two health guarantee products in Bamako using the mutual networks in existence. The first product covered 60% of expenses relating to doctor's visit and prescribed drugs, the second product covered 75% of hospitalisation costs. The health provider claims the insured portion of costs directly off the mutual releasing the policyholder from the burden of advance payments. Members are requested to provide identification cards when receiving treatment, there are a select number of healthcare providers that participate in the scheme and an agent is based in each hospital to verify and expedite the claims procedure. UTM negotiates and signs on behalf of all the mutuals to ensure that the best prices for medicines are obtained. This guideline prices list is distributed to each mutual, which is required to check each claim for appropriateness. Every month all health centres and all mutuals send in their data on fees and services to UTM, who then carry out a random sample check for each mutual to detect fraudulent behaviour. To be eligible for participation in the insurance scheme the policyholder must be part of the Association de santé communautaire (ASACO) through registration with a community based health centre. The scheme is reliant on the existing solidarity of the mutuals to gain sufficient numbers and avoid moral hazard, consequently the scheme is voluntary and does not exclude pre-existing conditions. The collection of the required premium is done over a year in small regular payments through a health savings plan, this makes it easier for the policyholder to pay the premium and enforces a minimum waiting period of one year. UTM provides resources to undertake educational workshops and marketing of the scheme to the members of the mutual, UTM is also responsible to ensure that sufficient reinsurance on the scheme is available. FNMF also has an important role to play in supporting the scheme: it provides necessary equipment to rural health care centres to ensure that adequate health care is available, it strengthens the link between the health centres and the mutuals, it undertakes actuarial studies and trains doctors and mutual personnel.

Whilst the scheme is still subsidised by Cooperation Francaise, there are promising signs that the sustainability of the scheme can be achieved and the scheme can be spread to other target areas. However, this is still a long term goal, there are still many difficulties to overcome, such as affordability, education, communication and infrastructure but in the short term the signs are encouraging in respect of the benefits the scheme is providing to the livelihoods of the poor (Samantar 2001).

Source: Kulmie Samantar, Head of International Development, FNMF

Appendix Five

Successful co-operative insurance companies

Case study 4: MACIF – France

MACIF is the largest French automobile insurer for retail and commercial sectors, formed in 1960 it now serves over 5 million policyholders. In order to ensure greater and real policyholder influence the company in the mid-1980's established 11 autonomous regions with its own board and management. The delegates of the regional board and committees represent the opinions and concerns of 2,500 members each. These delegates are trained in premium calculation, products, finance and involved in decision making process on rate increases. The national general assembly elects the national board and management, and is made up of regional delegates. The policyholder is informed of his or her rights and responsibilities as a member of MACIF and is gradually encouraged to become active in the operations of MACIF, by firstly voting for a regional delegate and then to become involved in policy setting (ACME 2001).

MACIF also funds projects dealing with job creation and re-training the long-term unemployed. One example is cars belonging to MACIF policyholders that are total write-offs, are dismantled for useable parts which are repaired and sold on. This project provides employment and a two-year training course leading to qualifications (ACME 2001).

Case study 5: FNMF - France

Mutualité Française, the Federation for French Health Mutuals, comprises of 3,000 companies providing supplementary health insurance and health care services to over 30 million people. The costs of healthcare in France is less and less adequately reimbursed by the mandatory system of national health insurance, the additional reimbursements from mutuals enables access to proper treatment. FNMF has made healthcare available to everyone, regardless of income, it has 1500 facilities established across France, with some located in disadvantaged areas. The Mutual pharmacies are developing their own range of unbranded products at lower costs to enable greater access for the poor.

FNMF also provides programs to promote public health and wellness in schools, neighbourhoods and local missions and publishes a journal "Health and Work" to inform on health issues and working conditions. Continuous research is carried out to improve the quality of healthcare and explore areas insufficiently treated such as palliative care and drug addiction. In the last four years a special action programme has been implemented with the support of the government, designed to provide health care for poor people (ACME 2001, FNMF 2001).

Case study 6: Folksam-Sweden

Folksam was established to underwrite general insurance in 1908 by the co-operative movement, trade union movement and the social democratic party. The objective of the company was to provide fire insurance on contents, with particular focus on the insurance needs of the average citizen. The then-existing insurance companies had little interest in the insurance needs of people with small assets. As the company was not able to raise the required capital it was allowed to start underwriting business on the condition that it obtained a certain number of policies in its first year of operations. In 1914 a life insurance company was established to offer cheap life insurance to people of limited means. This made an important contribution to the welfare of the poor, as demonstrated during the time of the Spanish flu in the 1920s, which claimed many lives amongst the poor. In 1925 Folksam introduced the first collective insurance scheme in 1925, providing personal accident cover for trade union members. Compulsory affiliation to the scheme enabled a better spread of risks and lower costs, which made the protection more affordable for those with low incomes. Over the years Folksam has spoken out for social insurance solutions where feasible, such as the creation of a national state-run old-age pension system. Folksam has more than 4 million insured under life and non-life group insurance schemes. Each scheme has an insurance committee where policyholders can put forward ideas, review current policy, assess financial results and discuss product development and claims reviews.

Folksam believes strongly in using its data and insights to prevent or minimise accidents and other insurance events. Its research into traffic safety has gained world-wide recognition, saving countless lives and reducing the suffering of millions. It regularly publishes reports on the interior safety of cars, child restraint systems, and crash pulse recorders in certain cars. The company also exerts considerable influence on environmental protection and costs, particularly in the use of building materials and products.

Recently, Folksam started a pension company with the Swedish Trade Union where all future surpluses of the scheme would in their entirety be for the benefit of the pension plan participants. Additionally, participants are given full insight and influence by having representatives sitting on the board of the company and investment committee. In its constant drive to give value for money, Folksam has reduced the costs of pension savings on the Swedish market by introducing funds that charged only 0.5% as opposed to the common charge on the Swedish fund market of 1.5% per annum. (ACME 2001, Grip 2001, ICMIF 2000, Folksam 1999).

Case study 7: National Farmers Union (NFU) - United Kingdom

NFU Mutual was established by a small group of farmers in 1910 to provide its members easy access to sound affordable insurance protection. The company widened its focus to the British countryside and currently insures two out of three farmers in the UK, writing both life and non-life products through 600 agents and 1,850 staff. Local boards and county insurance committees provide a network of customer councils which look after the interests of policyholders and provide regular feedback to the main board directors who themselves are drawn from local boards. This gives access to top management and board for any member that has a grievance or idea. NFU Mutual uses a network of experienced local farmers who operate as local assessors, particularly when dealing with specialist claims such as livestock and destroyed crop. Farmers have welcomed the involvement of fellow farmers and this one of the reasons why the company has one of the lowest operating costs in the UK market (ACME 2001, ICMIF 2000).

Appendix Six

Human development and insurance penetration in Muslim countries

HDI rank 1998	Country	Muslim population (%) 2000	HDI value 1998	GDP per capita (PPP US$) 1998	Insurance density: Premiums per capita 1998 (USD)	Insurance penetration: premiums as a share of GDP 1998 (%)	World population 1998 (%)	World insurance market 1998 (%)
32	Brunei	67	0.848	16,765	-	-	0.3	-
36	Kuwait	100	0.836	25,314	97.8	0.79	1.8	0.01
41	Bahrain	100	0.820	13,111	191.8	1.95	0.6	0.01
42	Qatar	95	0.819	20,987	271.9	1.66	0.6	0.01
45	UAE	96	0.810	17,719	253.4	1.43	2.4	0.03
61	Malaysia	59	0.772	8,137	133.4	4.02	21.4	0.13
72	Libya	97	0.760	6,697	35.9	0.23	5.3	0.01
75	Saudi Arabia	100	0.747	10,158	39.1	0.52	20.2	0.04
82	Lebanon	70	0.735	4,326	140.4	2.69	3.2	0.02
85	Turkey	99.8	0.732	6,422	33.1	1.06	64.5	0.10
86	Oman	99	0.730	9,960	58.5	0.87	2.4	0.01
89	Maldives	100	0.725	4,083	-	-	0.3	-
90	Azerbaijan	93.4	0.722	2,175	-	-	7.7	-
92	Jordan	94	0.721	3,347	29.8	1.90	6.3	0.01
94	Albania	70	0.713	2,804	-	-	3.1	-
97	Iran	99	0.709	5,121	18.6	0.67	65.8	0.05
98	Kyrgyzstarn	75	0.706	2,317	-	-	4.6	-
100	Turkmenistan	89	0.704	2,550	-	-	4.3	-
101	Tunisia	98	0.703	5,404	35.4	1.65	9.3	0.02
106	Uzbekistan	88	0.686	2,053	-	-	23.6	-
107	Algeria	99	0.683	4,792	9.1	0.54	30.1	0.01
109	Indonesia	88	0.670	2,651	5.8	1.27	206.3	0.06
110	Tajikistan	85	0.663	1,041	-	-	6.0	-
111	Syria	91	0.660	2,892	23.0	0.52	15.3	0.02
119	Egypt	94	0.623	3,041	8.5	0.65	66.0	0.02
124	Morocco	99	0.589	3,305	33.8	2.60	27.4	0.04
126	Iraq	97	0.583	3,197	-	-	21.8	-
135	Pakistan	97	0.522	1,715	2.9	0.66	148.2	0.02
137	Comoros	98	0.510	1,398	-	-	0.7	-
143	Sudan	73	0.477	1,394	-	-	28.3	-
146	Bangladesh	88.3	0.461	1,361	-	-	124.8	-
147	Mauritania	100	0.451	1,563	-	-	2.5	-
148	Yemen	99.9	0.448	719	-	-	16.9	-
149	Djibouti	94	0.447	1,266	-	-	0.6	-
151	Nigeria	50	0.439	795	2.7	0.86	106.4	0.02
154	Côte d'Ivoire	60	0.420	1,598	12.0	1.53	14.3	0.01
155	Senegal	94	0.416	1,307	-	-	9.0	-
156	Tanzania	50	0.415	480	-	-	32.1	-
159	Eritrea	50	0.408	833	-	-	3.6	-
161	Gambia, The	90	0.396	1,453	-	-	1.2	-
162	Guinea	85	0.394	1,782	-	-	7.3	-
165	Mali	90	0.380	681	-	-	10.7	-
167	Chad	50	0.367	856	-	-	7.3	-
171	Ethiopia	50	0.309	574	-	-	59.6	-
172	Burkina Faso	50	0.303	870	-	-	11.3	-
173	Niger	97	0.293	739	-	-	10.1	-
174	Sierra Leone	60	0.252	458	-	-	4.6	-

HDI (Human development index) – composite index based on life expectancy, educational attainment and standard of living. A HDI below 0.500 reflects low human development and well being.

Source: UNDP (2000), Felahi (2001), Sigma (1999), Sigma (2000).

Appendix Seven

The partner-agent model

Case study 8 – CULROC, Taiwan

In 1982, the Credit Union League was established and registered as a legal non-profit organization at the Ministry of the Interior. The League organizes, supervises, administers and monitors the activities of all credit unions in Taiwan serving 180,000 members. After a number of years of lobbying CULROC achieved concessions from the Taiwanese government that whilst not a licensed insurer it could provide its members with products from foreign insurers, who were licensed in their own countries. As from 1 January 2001, subsequent to an ICMIF workshop on formalising credit union insurance programs, a partnership between CULROC and NTUC Income from Singapore was agreed to insure the credit union members under the following schemes:

Loan protection insurance (LP). This term life scheme is mainly designed to "let the debt die with the debtor". In case of death or total disability of a member, the balance of his qualified outstanding loan will be covered by the policy, subject to policy limits which varies from CU to CU. Premium is paid by the individual Credit Union (CU). It is collected monthly by the league from the CUs and settled together with the claims in a monthly account to NTUC Income.

Life savings (LS). This term life insurance is designed to optimize the value of share deposits for members. The policy will pay an amount equivalent to the value of the deceased member's share. This is subject to a maximum policy limit which varies with the age of the member and duration of membership and from CU to CU. Premiums and claims are administered by the League and NTUC Income in the same way as under the LP programme.

Peace savings (PS). The concept of this policy is savings and term life cover. Consequently, it has a maturity value and gives death and disability coverage. The maturity period is five years. Unlike LP/LS, which automatically covers all members and is paid by the CU, this policy is subject to application and individual payment by the member.

Bond. This is a cover for the CUs, giving protection for fraud and dishonest acts of the management committee of the societies, damages arising from criminal acts and cash in transit. Coverage is dependent on size, assets and daily cash transactions of the CU.

This partnership has provided benefits to all parties, CULROC members have access to more products and additional coverage. CULROC receives a risk-free commission for administering and marketing the business, it has access to the technical expertise, financial and reinsurance capacity of NTUC INCOME, one of Singapore's leading insurance companies and is an associate member of ICMIF. NTUC INCOME gained entry into the Taiwanese market without set up costs and licensing requirements. NTUC Income and CULROC are discussing several new products, particularly endowment insurance programmes to provide for the ongoing needs of credit union members.

Source: Aloysius Teo, General Manager, NTUC INCOME, Singapore

Appendix Eight

Formalising operations

Case study 9: Unique - Ghana

ICMIF and its member Zenrosai of Japan assisted the Labour Enterprise Trust Company Ltd to undertake a feasibility study and provide insurance experts to support the necessary groundwork to set up a co-operative insurance company. The trade unions and co-operative union collected regular premiums of $1 from each of its members and by 1999 raised sufficient capital (1 million USD) to make an application for an insurance license. During 2000, annual premium income of Unique Insurance company was about 350 thousand US dollars. In January 2001, the Co-operative Credit Unions Association (CUA) of Ghana approached ICMIF for assistance to provide formally acceptable insurance services to credit union members. CUA had introduced an informal risk management program in 1986, in which some 120 of the 160 credit unions in the country received credit life insurance and savings life insurance. An agreement was reached to pursue a partnership between CUA and Unique sponsored by ICMIF and the Canadian Co-operative Association (CCA).

The consultants mission was to

- identify the administration, information systems, accounting, actuarial and marketing requisites of the joint program;
- design and implement the needed management information system and database; and
- ensure the program's adherence to current and anticipated legal and government requirements.

The first step is to transfer the CUA credit life business to Unique, this needed a product to be developed from scratch as Unique did not have an existing credit life product, requiring the following steps:

* finalising the product itself, i.e., all the specifications;
* designing the procedures and forms, health declaration forms and certificates of insurance;
* arranging for reinsurance;
* developing the actuarial rates and reserve calculations;
* drafting the master contract; and
* modifying the administration/actuarial/reinsurance software.

The general arrangement of the partnership is for the individual credit unions to sell the product to their members, collecting data, and handling the applications and health declarations. The CUA markets the products to credit unions, codes the data and undertakes general administration in return for a profit share. Unique will bear the risk, provide actuarial and software support, obtain reinsurance and pays claims.

The credit life product will be piloted in four credit unions to generate live data. The second product, savings life insurance will be transferred in 2002. A broader objective of the CCA-ICMIF project is to use the risk management, insurance and reinsurance elements of this model agreement to assist credit union organizations and co-operative insurers in other countries to develop and maintain sound insurance services for their members.

Source: John Wipf, ICMIF Consultant

Appendix Nine

Reinsurance through ICMIF

Case study 10: Co-operators General Insurance Company - Barbados

The Barbados credit union league after administering a Mutual Benefit Plan to its members for a number of years, formalised its insurance operations in 1993. ICMIF has been assisting the League to set up insurance services since 1984, providing consultancy and capital-raising support. Once registered Co-operators General faced three major problems that were resolved by ICMIF reinsurance through its members. In the first year of operations, due to over estimation of premiums, the cost of catastrophe cover on the open market for fire, household and motor policies was higher than actual premiums written. ICMIF reinsurer provided a 90% quota share agreement[54], which reduced the exposure of the company to one-tenth. Second, the nature of unlimited liability under local motor policy regulation meant that the best unlimited excess of loss cover[55] available on the open market required a retention of 300,000 BBD on each claim, which the company could not afford. ICMIF reinsurer provided an excess of loss cover up to the 300,000 BBD with a retention requirement of only 40,000. Between 1994 and 1998 this protected the company from 884,000 BBD in claims (almost half million US dollars), enabled it to write more policies, gain more underwriting experience, pay claims quickly, maintain solvency and invest reserves. Thirdly in 1998, the company was experiencing an increasing number of small claims (below 40,000) due to the rapidly expanding motor business. Consequently, the excess of loss was converted to a 50% Quota share agreement up to 300,000 BBD and placed with ICMIF members. This protected the company from claims of five and half million BBD between 1998 and 2001 (over two and a half million USD) and maintained its capacity to grow.

Case study 11: Co-op Seguros Dominican Republic

Since its registration in 1989, apart from 30% being placed locally for the first few years, ICMIF has provided the reinsurance cover for all products (non-life and life) written by Co-op Seguros. During the 1990s the company experienced financial difficulties and coupled with foreign exchange restrictions fell behind in its payment of reinsurance premiums. Normally reinsurance cover would be withdrawn but on persuasion ICMIF members continued its agreement to cover Co-op Seguros. In the late 1990s as the company's performance improved a suitable repayment plan was agreed and implemented. This proved timely as in 1998 Hurricane George resulted in seven claims of 322 thousand US dollars, ICMIF reinsurers agreed to pay the claims without deduction of outstanding premiums. As well as paying its policyholders quickly and fully, this enabled the company to remain solvent and show a pre-tax surplus of 41 thousand instead of a loss of 140 thousand US dollars in 1998.

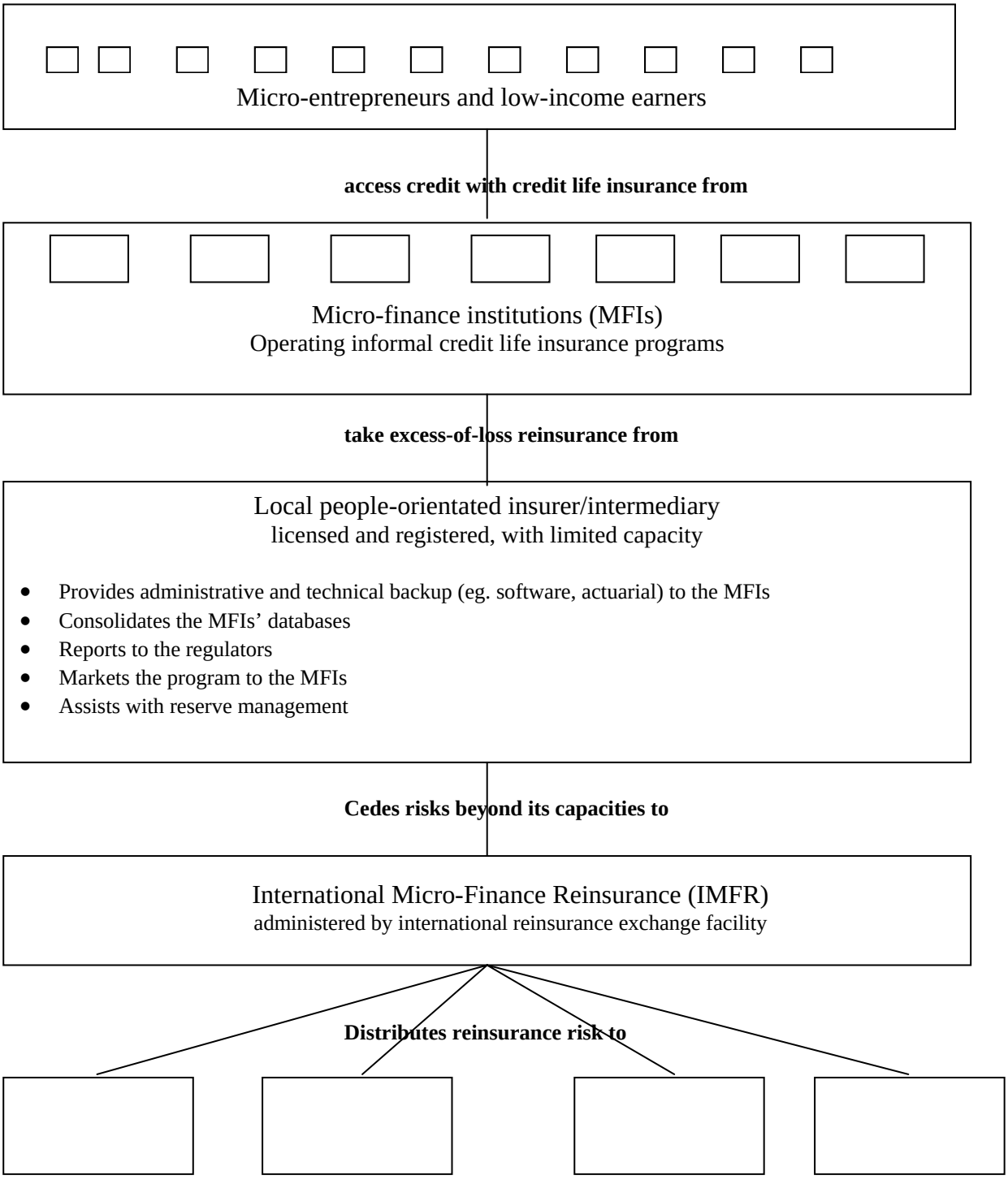
Source: ICMIF Reinsurance Services

[54] Risks is shared between the ceding company and the reinsurers on a fixed percentage

[55] The ceding company retains a fixed monetary amount and arranges protection from the reinsurer up to a further monetary amount.

Appendix Ten

UNCTAD/ICMIF model of credit life insurance for people with micro means
(The Gudger Model)



International group of established/secure reinsurers
taking varying percentages of the pool's required capacity through the exchange

Source: Grozel & Amijee (1999), as adapted from Michael Gudger Model, STEP Program, ILO.

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